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Trump's Stand on GERD
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ETHIOPIAN BUSINESS REVIEW

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"ETHIOPIA NEEDS A QUANTUM ECONOMIC LEAP TO SURVIVE."

Mehrteab Leul,
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Give AfCFTA a Chance

Ethiopia has been impelling for the expansion of Djiboutian ports to accommodate its mushrooming foreign trade on top of exploring alternative sea gates, including the purchase of a stake in Somalia's Berbera port. The country is also under negotiations with Eritrea to develop the ports of Massawa and Assab. The recent establishment of a one-stop border post (OSBP) between Kenya and Ethiopia alongside the completion of the Hawassa-Moyale road project provides Ethiopia, with its heavy and increasing dependence on imports, another option with Lamu, Kenya's second largest port after Mombasa.

The move is also essential in boosting Ethiopia's trade relations with neighboring countries. In fact, the opening of the border post and transnational road couldn't come at a better time. Africa is currently embarking on a new economic path in the launching of the African Continental Free Trade Area (AfCFTA). The AfCFTA, set to begin January 1, 2021, is the highest hope for developing countries like Ethiopia to increase and diversify exports increasingly upwards in the value chain.

Currently, the bulk of African exports are raw materials, agricultural commodities, and minerals, with 70Pct of value addition occurring outside the continent. As a result, intra-Africa trade constitutes less than two percent of Africa's total foreign trade.

According to the World Bank, the current trade volume between Congo-Brazzaville and Congo-Kinshasa, with their capitals separated by only the Congo River, is five times less than that of East and West Berlin in 1988. Sudan usually produces surplus cotton while Ethiopia is short of cotton yet imports it from Asia. Ethiopia is importing cement from India and Pakistan to satisfy demand while South Africa and Tanzania have surplus product.

But African nations in general are doing little to eliminate trade barriers. Particularly poor road networks are discouraging the movement of goods. Railways and roads are mostly built to link cities with ports and not with integration in mind. Infrastructure built independently, as well as in partnership with neighboring countries, is not targeted at intra-Africa trade. Ethiopia's interest in regional infrastructure development is fundamentally based on its priority in searching for access to ports to accommodate the ever-increasing import of commodities rather than desegregating trade.

Limited trade posts along borders is the other major barrier impeding trade amongst African countries. For instance, only one post exists between Kenya and Ethiopia, which share an 830-kilometer long border. The lack of railway and road infrastructure among African countries coupled with arduous border checks and custom clearance makes trade within Africa more costly. On the other hand, it is cheaper for an African country to trade with Asia or Europe. Ethiopia has a large market potential in Africa but its markets are more accessible for western and Asian countries.

AfCFTA can have a significant impact not only on trade, but also in regional value chain integration to realize enhanced regional economic integration and Africa's industrialization where components production is outsourced to neighboring countries, and the final product is produced in a country next door.

Trade agreements such as AfCFTA are meaningless without substantial investments in intra-Africa infrastructure networks, which can unlock an influx of commodities' movement. Ethiopia has opened a road connection to Khartoum and is also currently planning to launch cross border highways with Eritrea. Ethiopia and Kenya are planning to open an additional three OSBPs. Such development of joint infrastructures must grow substantially to give AfCFTA a better chance of success. EBR

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The following were some of the news stories in Ethiopia last month. They were sourced from Addis Maleda, a weekly Amharic Newspaper and sister publication of EBR.

Addis to Test Electric Buses

The Addis Ababa City Transport Bureau is teaming up with the UK based C40 Cities to test electric buses under the Bus Rapid Transit (BRT) system. The city administration is also preparing to build BRT lanes in selected corridors of the capital. Electric vehicles are chosen in tandem with the clean mobility efforts underway by the Ministry of Transport.

First Technology and Investment Bank on the Horizon

Damota Technology and Investment Bank SC is under formation. Damota's founders include former officials of the National Bank of Ethiopia (NBE). The organizing committee has sent teams to conduct studies in Kenya. The bank will provide modern financial services for businesses in technology and investment.

Hora Group launches Three-wheels

Hora Adama Automotive Assembly Arena (H4A) launched three-wheel vehicles used for cargo and passenger purposes. The company installed technology that can produce 23 three-wheel vehicles in 56 minutes, on 50 hectares in the outskirts of Adama town. The factory has a capacity of assembling 25,000 to 30,000 four-wheel and three-wheel Bajajs a year.

UNIC taps a unique business

United Insurance SC has generated ETB210 million in revenue from investments in real estate, up from ETB36 million last year. UNIC collected ETB551 million from general insurance premiums and ETB46 million from life insurance, showing an increase of 12Pct and 18Pct from last year, respectively.

The cost incurred to construct one kilometer of railway, on the Woldia-Mekelle railway project. This segment is the most expensive railway in Ethiopia, due to the number of tunnels and bridges involved. The cost is almost double that of any other railway section in the country. The project's progress is 55Pct.

USD 7.3 million per kilometer

Commission Secures Foreign Currency to Dispose Toxic Chemicals

Global Environmental Facility finances Ethiopia to dispose hazardous chemicals accumulated for three years stored in 383 warehouses. The Ethiopian Environment, Forest, and Climate Change Commission has secured USD4.5 million to export and dispose DDT, organon phosphate, and organon chlorine. Although the law mandates institutions and companies who import the chemicals to discard them properly, the regulation remains weak.

Molasses Shortage Dizzies Alcohol Factories

Major alcohol factories in Addis Ababa stopped production due to a chronic shortage of molasses. The factories need 30,000 MTs of molasses per month. However, most of the molasses from sugar factories is directed to sanitizer factories owing to COVID-19.

ET to Fly Vaccines

Ethiopian Airlines Group has prepared 21 cargo planes to transport COVID-19 vaccines across the world. The aircrafts are equipped with cooling systems to meet the storing requirements of the vaccines. The group has particularly reached agreements with China.

Geological Survey Searches for Labs

The 50 year-old Ethiopian Geological Survey is to establish a modern lab at a cost of ETB100 million. The institution has been spending huge amounts of foreign currency to send samples abroad for testing, because it lacks its own labs.

300 thousand quintals

The amount of sugar demand gap in Ethiopia, according to the Ministry of Finance. The ministry is evaluating assets to privatize ten sugar factories, whose production targets could not materialize. Government is also preparing a sugar policy and proclamation to regulate the sector once privatized.

Top 10

Top Performing African Countries in SDG

Rank	Country	Score
1	Tunisia	67.10
2	Mauritius	66.79
3	Morocco	66.30
4	Algeria	65.90
5	Cape Verde	65.59
6	Egypt	65.44
7	Botswana	63.93
8	Ghana	62.69
9	South Africa	62.20
10	São Tomé and Príncipe	61.61

Source: Mo Ibrahim Foundation, The Sustainable Development Goals Center for Africa, Sustainable Development Solutions Network

In the 2020 Africa SDG Index and Dashboards Report, most of the 17 SDG goals have witnessed serious setbacks, mainly due to COVID-19.

The slowdown of domestic economic activity translates into revenue shortfalls. The financing gap for SDGs in Africa that was already large is expected to widen, increasing the fiscal vulnerability of African governments. Without financial resources, sustainable development is elusive.

Due to the on-going economic crisis, trade and financial streams have been hampered and global financial conditions are tighter than normal. Remittances, official development assistance (ODA), and portfolio flows have taken a nosedive and are likely to remain subdued through 2021.

Overall, North Africa is the best-performing region on average, while Central Africa is the worst-performing. No country scored green for 13 of the 17 goals. Only SDG 13 (climate action) and SDG 12 (responsible consumption and production) are moderately better.

Across all countries and goals, the most frequently observed trends are stagnation and moderate improvement, which is a positive development as compared to the 2019 analysis which was overwhelmingly stagnant.

Ethiopia ranked 22nd, scoring 54.15. However, Ethiopia scored 39.3 in the leave no one behind (LNOB) ranking. Ethiopia has seen moderate improvements in poverty reduction, decent work and economic growth, and climate action. South Sudan is last in the ranking, with 32.36. The average score for Africa is 53.82, while it is 70.7 for the European Union. EBR


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The following are a few of the biggest news stories that took place in Africa in the last month. The stories are sourced from Bloomberg and Reuters.

African governance worsens for first time in a decade: survey

Africa's governance performance worsened in 2019 for the first time in nearly a decade due to a broad deterioration in the areas of human rights, security, and rule of law, according to a new survey.

The Ibrahim Index of African Governance (IIAG)—the most comprehensive survey of its kind on the continent—rates 54 African nations against criteria including security, human rights, economic stability, just laws, free elections, corruption, infrastructure, poverty, health, and education.

The 2019 African average score for overall governance declined by -0.2 points from 2018, registering the first year-on-year score deterioration since 2010, the report published by the foundation of Sudanese telecoms tycoon Mo Ibrahim said.

Morocco

Morocco's King Mohammed VI ordered that all Moroccans should receive a coronavirus vaccine for free, the royal palace said.Morocco plans to roll out China's Sinopharm vaccine in the coming weeks as soon as its phase three trials are over, Prime Minister Saad Dine El Otmani told Reuters last month. The country has also ordered doses from AstraZeneca and is in talks with other vaccine developers, he said. As of December 8, 2020, Morocco, with a population of about 36 million, had seen 384,088 confirmed cases and 6,370 deaths. It has around 40,000 active cases.

Nigeria

Foreigners are using a gold exchange-traded fund (ETF) to pull cash out of Nigeria amid the country's ongoing dollar shortage. Portfolio managers are buying the Newgold Issuer Ltd. ETF in the nation's commercial capital, Lagos, using the naira. Then they transfer holdings to the fund's primary listing in South Africa and sell for rands.As a trade, it's an almost certain money-loser. But activity in the ETF has been gradually increasing as investors decide it's worth paying-up to get assets out of Nigeria and into other more liquid markets.

Ivory Coast

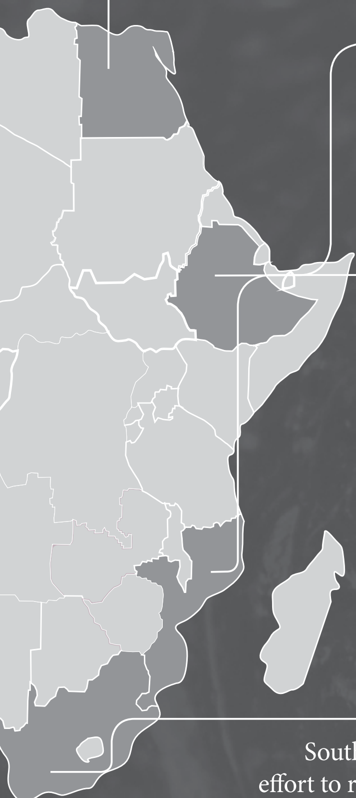
Cocoa farmers in Ivory Coast said they would withdraw from chocolate industry sustainability programs if companies try to avoid paying a premium aimed at combating farmer poverty. The world's top producer introduced a USD400 per ton premium this season, known as a living income differential (LID), to increase farmer wages. The move was welcomed by farmers, but it has driven up prices for Ivorian cocoa just as the coronavirus pandemic dents global demand, causing friction between large chocolate companies and the workers growing the raw crop.

Nigeria

A lawsuit launched by the Nigerian government against U.S. bank JP Morgan Chase, claiming over USD1.7 billion for its role in a disputed 2011 oilfield deal, proceeded to trial in London's high court. The suit filed in English courts in 2017, relates to the purchase of the offshore OPL 245 oilfields in Nigeria by oil majors Royal Dutch Shell and Eni in 2011, which is the subject of an ongoing trial in Milan. The six-week London trial will start on the first available date after Nov. 1, 2021, meaning that proceedings may not begin until 2022. Central to the case is a $1.3 billion payment from Shell and Eni to secure the block that was deposited into a Nigerian government escrow account managed by JP Morgan.

REUTERS

Bloomberg Business



Egypt

Egypt's foreign reserves recover slightly to $38.2 billion. Egypt's net foreign reserves recovered some ground lost during the coronavirus outbreak, rising to USD38.2 billion in June from USD36 billion in May, the central bank said on December 8, 2020.

Foreign reserves have dropped since March from a high of more than USD45 billion, as investors pulled cash from emerging markets and Egypt's tourism industry, a key source of foreign revenue, came to a near standstill.

Ethiopia

The United Nations refugee agency appealed to Ethiopian authorities for access to 96,000 Eritrean refugees in the northern Tigray region, where it said food is believed to have run out during the month-long conflict.

Mozambique

ExxonMobil and Total are in negotiations over their massive LNG projects in Mozambique, with each seeking to extract more gas from a shared field that straddles the two developments and cut costs, three sources familiar with the matter told Reuters.

The talks between the energy majors also involve the Mozambican government. The field that straddles the projects happens to contain gas that is thicker and therefore cheaper to extract and convert into LNG than reserves elsewhere in the projects.

South Africa

South Africa started a fresh battle with labor groups in its effort to revive the bankrupt state airline, offering three months of wages to employees who haven't been paid since March. The government's Department of Public Enterprises and the National Union of Metalworkers of South Africa agreed to discuss the matter. The South African Cabin Crew Association, another union, had expected members to be paid in full, in line with the country's legal framework for a business-rescue process. The new flareup represents another barrier to South Africa's plan to get SAA to fly again, about a year after the loss-making carrier first went into bankruptcy protection. SAA hasn't flown a commercial flight since March, when its fleet was grounded to help contain the coronavirus. SAA hasn't flown a commercial flight since March, when its fleet was grounded to help contain the coronavirus.

Nissan sets up new business unit for African region

Japanese automotive group Nissan is to set up a new regional business unit for Africa as it seeks to boost manufacturing capacity and penetrate one of the world's biggest undeveloped new car markets.

The move marks a reorganization of the company's disparate operations on the continent, bringing them within one entity.

Sub-Saharan's 1 billion inhabitants account for only 1pct of the world's new passenger car sales, based on industry data. Most carmakers have focused manufacturing and sales in South Africa—the continent's most developed economy—which accounts for 85Pct of Africa's new car purchases.

Nissan, along with competitors Volkswagen, BMW, and Toyota, have been lobbying African governments to grant conditions that favor local assembly and manufacturing while curbing imports of cheap used cars.

Carmakers are also hoping to take advantage of the African Continental Free Trade Area, which is expected to come into force early next year and will reduce tariffs and ease the flow of goods between members states.

THE COST OF CONFLICT, INSTABILITY

Since 2015, anti-government protests, conflict, and instability have been ravaging Ethiopia. Especially in the past two years, the breakdown of law and order has become the new normal. Thousands have lost their lives and in 2018, 2.3 million were internally displaced—a world record high. In fact, in the last two and a half years, excluding the latest operation in Tigrai, 113 conflicts have erupted across the country. As a result, the federal government's expenditure to secure public order and security swelled from ETB14.2 billion in 2017/18 to a staggering ETB24.2 billion in 2019/20. Though without a known updated figure, the latest operation in Tigrai is sure to compound Ethiopia's security bill. EBR's Ashenafi Endale explores the direct and indirect costs of conflict and instability, as well as the overall economic losses.

On December 1, 2020, international development partners and members of the diplomatic community residing in Ethiopia were convened to be briefed by top government officials at Hyatt Regency Addis Ababa. At the center of the meeting was Ambassador Dewano Kedir, Permanent Secretary for business diplomacy at the Ethiopian Ministry of Foreign Affairs. He asserted that the government is now ready to talk business.

"Since the law enforcement operation has ended after the capture of the regional capital of Mekelle, the government is ready to solve investors' concerns," Dewano told participants inquiring about the state of peace and investment environment.

The meeting was held two days after Prime Minister Abiy Ahmed (PhD) announced the conclusion of the law enforcement operation in the state of Tigray while addressing Parliament on November 30, 2020. "Our focus will now be on rebuilding the region and providing humanitarian assistance," Abiy told members of Parliament (MPs).

The UN refugee agency, UNHCR, reported over 30,000 people were displaced from war zones in Tigrai and have migrated to Sudan, fueling a refugee crisis in a nation under transition. "Close to 30,000 refugees is very small. We have rebuilt the lives of millions of internally displaced people over the last two years. We have enough experience," Abiy asserted while addressing Parliament.

The federal government launched a military campaign in the region on November 4, 2020, unusually announced in a late-night social media post and national TV broadcast by the Prime Minister. The operation targeted deposing the Tigrai People's Liberation Front (TPLF) and maintaining law and order

"Restoring peace and stability is critical," says Fekadu Degife (PhD), former President of the Ethiopian Economics Association. "The government cannot implement an economic or any other policy if there is no peace and stability."

Recurring violence and instability seem to be enduring characteristics of

> **Our focus now will be on rebuilding Tigray.”**
>
> Prime Minister Abiy Ahmed (PhD)

Ethiopia. It has been five years since achieving peace and stability in the second most populous African nation became the top agenda. It started when anti-government protesters in the state of Oromia took to the streets in November 2015. The protests engulfed the country by soon spreading to the state of Amhara and several other parts of the country.

In the ensuing three years of almost continuous protests, hundreds died, thousands were imprisoned, and business and transport activities were severely interrupted and hampered. The government was forced to declare a state of emergency twice during the period.

The pressure from protesters demanding broader economic and political reforms forced the government and the then ruling party to exercise reform, resulting in the appointment of Abiy as Prime Minister in April 2018. Immediately after taking power, Abiy implemented several reforms to open up the political space by releasing political prisoners and allowing exiled politicians to return. He also ended the hostility of 20 years between Ethiopia and Eritrea.

But the period of peace and stability was short-lived. Ethnic conflict, violence, and a breakdown of law and order quickly become the new normal. Thousands have lost their lives in the past two years and the number of internally displaced people reached a world record high of 2.3 million in 2018.

The Prime Minister revealed the extent of the problem to MPs. “In the last two and a half years, excluding the latest operation in Tigrai, 113 conflicts erupted across the country,” he said. “Oromia leads with 37, followed by 23 in Amhara, 14 in Addis Ababa, and 13 in Benishangul.”

Breaking down the cost

The effects of conflict and instability range from the loss of life and destruction of physical resources to the disturbance of economic activities and general social disorder. The impact can be analyzed from two perspectives: direct and indirect costs of conflict. Direct costs refer to the expenditure spent to neutralize conflicts and restore the rule of law. On the other hand, indirect costs reflect wasted financial resources invested on destroyed public infrastructure, damaged properties of investors, as well as funds required to reconstruct damaged infrastructure and compensate investors.

In the last five years, federal and regional security apparatuses as well as the national defense forces have been entrusted with counterbalancing conflict and violence in various parts of the country. This has heightened the nation’s spending on public order and security.

Ethiopia’s official defense expenditure—growing by 20Pct on average in recent years—was ETB17 billion in 2019/20. However, when compared with the economy’s size, the share of military expenditure is currently at an all-time low. After declining from historic highs of 10.28Pct in 1989 and 9.51Pct in 1999, Ethiopia’s share of military expenditure to gross domestic product (GDP) was 0.6Pct in 2019, according to the Stockholm International Peace Research Institute (SIPRI).

The official defense budget, however, only indicates the recurrent budget allotted for personnel and routine operations. Capital expenditures on equipment and campaigns are usually confidential. Additionally, official military expenditure does not include and cover the costs of other security apparatuses such as federal and regional police forces.

A more precise figure can be drawn by analyzing governmental expenditure on public order and security. This outlay mushroomed from ETB14.2 billion in 2017/18 to a staggering ETB24.2 billion in 2019/20, according to a National Bank of Ethiopia (NBE) report. In the fourth quarter of 2019/20, the expenditure on public order and security jumped to ETB9.9 billion, double the amount compared with the third quarter.

This expanded expenditure was not without reason considering the period was blotted by political tension, escalating to a point of no return following the assassination of artist Hachalu Hundessa in July 2020. Although there isn’t an updated figure, the latest operation in

Tigrai is expected to drastically increase Ethiopia's spending on peacefulness.

This is not surprising, according to Wasihun Belay, independent Analyst. "Expenditures during military operations tend to increase," explains Wasihun. "The logistical work to undertake even small military operations is huge."

Indirect costs of instability and conflict can be calculated by analyzing wasted financial resources invested on destroyed public infrastructure and the resources required to rebuild. Private investment and property damaged and the cost of compensation and rebuilding is also a heavy burden.

"The money spent on this military operation could have been invested on development projects. A lot of youth participated in this military operation from both sides. Property and infrastructure which could have had contributed to the economy were damaged. Financing being withheld by external sources is also affecting us. Unless we finalize peace and security issues faster and rebuild our image, FDI will drop. Business is slowing down due to mobility shortages and lack of government support. Export is affected," Ambassador Redwan Hussein, Head of the State of Emergency Communication Secretariat and State Minister for Foreign Affairs, said publicly.

"The impact on the economy is not simple. These difficulties obviously slow the rate of economic growth but it will not reverse the ongoing economic reform. The attention and resources allocated for the law enforcement operation has significantly impacted economic progress. We must prepare ourselves to exponentially increase our efforts, to compensate for the time and resources wasted on this operation," added the Ambassador.

The Prime Minister, on his part, did not disclose the investment loss due to the destruction nor the resources required to rebuild. However, bridge, road, airport, telecom, electrical, and other infrastructure was damaged, severely affecting the lives of people in the region. For instance, Axum Airport, built with ETB527 million, was damaged extensively.

"Ethiopia's economy was already entering a recession due to COVID-19," argues Wasihun. "Reconstruction will take time. Searching for funds, designing projects, floating bids, then undertaking the actual construction is not simple."

But it is not only public infrastructure that's damaged during conflicts. "Over 300 investment projects were damaged during the conflicts of the past two years," Lelise Neme, Commissioner of the Ethiopian Investment Commission (EIC), told journalists during a briefing held last month. "The government is preparing to provide loans for affected investors at low interest rates. Additionally, the government will extend their loan repayment periods, postpone their debts, and also permit the import of equipment and raw materials duty free."

Over 300 investment projects were damaged during the conflicts of the past two years."

Lelise Neme,
Commissioner of Ethiopian Investment Commission

The Office of the Attorney General disclosed property worth over ETB4.5 billion was damaged by conflicts in Shashemene town in the last two years. "Shashemene has lost most of its infrastructure, factories, and hotels due to conflict and requires significant resources to rebuild," says Wasihun. "Apart from the physical damage, it eroded the confidence of foreign and local investors."

Of course, instability and conflict are already affecting the annual foreign direct investment (FDI) flow. Especially after 2010, the annual FDI flow showed continuous growth to reach a record high of USD4.5 billion in 2017. This placed Ethiopia among the top five FDI destinations in Africa. But the flow started to decline in 2018 and was USD2.5 billion last year. In the first quarter of the current fiscal year, FDI flow was USD500 million, 20Pct lower compared with the previous year's corresponding period.

The government is preparing to pay ETB2 billion in compensation for damaged investments of the last two years, according to Temesgen Tilahun, Deputy Commissioner of EIC. "A new legal framework allowing the government to compensate investors is under preparation. The legal move is especially necessary to attract local and foreign investors." Further, NBE is also drafting a directive so that commercial banks can provide new loan schemes designed to redress investments damaged due to instability.

Wasihun says the cost of reconstruction and compensation is higher than the cost of conflict. “The government will be forced to divert finds from development endeavors or borrow money from internal and external sources,” Wasihun stresses. “This will fuel inflation, unemployment, and decrease production. This is bad news for the country with a budget deficit of ETB120 billion.”

ETB 24.2 billion

The federal government expenditure on public order and security in 2019/20.

ETB 2 billion

The amount of money the government is preparing to pay in compensation for damaged investments over the last two years.

The ultimate loss

After the war with Eritrea ended, Ethiopia turned towards development by redirecting its resources from militarization. As a result, public expenditure on development activities—mostly infrastructural projects—constituted a larger share of annual governmental spending. In fact, Ethiopia spent 37Pct of its GDP in the last decade to develop public infrastructure. This allowed the economy to grow at an average of 10.2Pct over the last fifteen years.

This trend continued until the nation began to be ravaged by instability and conflict, leading to a surge in spending on public order and security. “Obviously, the instability affected investment and the economy. But it is difficult to calculate its impact on GDP growth,” says Teka Gebreyesus, State Minister for Trade and Industry.

“Economic and trade activities, such as the supply of sesame from north western Ethiopia, declined,” argues Gudeta Kebede (PhD), Lecturer of developmental economics. “The impact of the conflict and instability on GDP growth will not be less than the adverse effect of COVID-19.”

As studies indicate, the rise of expenditure on public order and security adversely impacts economic growth by reducing resources available for productive investment. To support this argument, suffice it to assess how the lack of peace and instability affected the economies of Ethiopia’s neighbors South Sudan, Sudan, and Somalia.

The conflict in Darfur cost Sudan, between 2003 and 2017, USD88.7 billion, according to the International Monetary Fund (IMF). This continues to stunt the country’s economic growth even after the war ended. Two decades of conflict and instability also devastated the economy of Somalia, creating a country poorer today than 50 years ago. Although a government and constitution were established in 2012, Somalia’s annual economic growth rate has continuously declined and is currently below two percent while its debt has reached USD4.7 billion, constituting 100Pct of its GDP, according to IMF.

Conflict and instability are also responsible for making South Sudan the poorest country in the world. Four out of five South Sudanese now live below the international poverty line. Its economy has contracted for consecutive years while inflation is rampant. Between 2015 and 2017, the consumer price index rose by a staggering 1,100Pct.

Ethiopia has also had its fair share of conflicts. In 1975 during the war with Somalia and 1991, ensuant to the instability associated with a regime change, Ethiopia’s GDP growth fell to 2.6Pct. The war with Eritrea cost Ethiopia ETB25.4 billion, equivalent to 18 months of the national budget or close to half its GDP at the time.

Citing how the second World War turned the USA into a global industrial power, some experts believe that increased military spending raises technical competence and economic growth. This is because industries that produce and supply packed foods, clothing, ammunition, weapons, and other related items for the military, are likely to grow.

But if conflict and instability are drawn out, the structure of the economy changes to enter into a war economy as evidenced by the experiences of East African countries and others. “For instance, South Sudan remains in a war economy even after the conflict ended because of the war’s lengthy duration,” explains Gudeta. “The operation in Tigray, however, ended after one month. So, Ethiopia is far from reaching this devastating reality.”

Gudeta agrees. “Ethiopia is not experiencing a war economy, because the government did not augment its budget for the latest operation, nor did it divert resources from other development projects.” EBR

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"ETHIOPIA NEEDS A QUANTUM ECONOMIC LEAP TO SURVIVE."

Mehrteab Leul Kokeb, a leading corporate financial services Lawyer in Ethiopia, has been practicing law for nearly three decades. After earning his law degree from Addis Ababa University in 1992, he worked as a judge in the high court and also as a litigator in the early 2000s. He then partnered with DLA Piper, a London based global law firm with offices in more than 40 countries, and joined the firm's network by founding Mehrteab Leul & Associates (MLA) Law Office, a de facto law firm advising and representing corporate clients on business and investment issues in Ethiopia. Mehrteab has also studied financial services law at the University of London.

Working with over 20 lawyers, MLA advises companies ranging from start-ups to multi-national companies. Coca-Cola, Marriott Hotels, Exim Bank of China, China Development Bank, and Japan Tobacco International are few among the corporate clients of MLA. He also advises government institutions on a pro bono basis. He was a member of the professional working group that drafted the new investment law and commercial code.

Mehrteab, currently serving as Principal of MLA, says it is difficult to deliver proper legal services to international clients without forming as an actual firm because international and corporate clients come with various issues encompassing employment, finance, tax, and intellectual property, among others. He hopes that the draft legal framework will allow the establishment of law firms in Ethiopia. With that, he plans to transform his de facto law firm into a de jure one.

Although MLA draws more than 95Pct of its clients from overseas, Mehrteab is optimistic that things will change soon as the country is in the process of joining the World Trade Organization (WTO). He says, this will change the way we do business. He also stresses that Ethiopia cannot grow while isolated from the rest of the global economy.

As the scale of the economic challenges facing Ethiopia now are colossal—one that could even cost the very survival of the nation—Ethiopia needs to draw valuable experiences and pool capital and technology from overseas, he argues.

Mehrteab believes that Ethiopia needs a quantum economic leap to survive. According to his anlysis, joing the WTO widens economic opportunities. A team of EBR editors sat down with Mehrteab to discuss on the investment climate in Ethiopia and his firm.

There is no legal framework allowing the establishment of law firms in Ethiopia. Under what pretext is Mehrteab Leul & Associates Law Office (MLA) established?

MLA is a de facto firm. I work with 21 lawyers. Legally, we work under an employment arrangement. A draft legal framework permitting the establishment of law firms in Ethiopia is currently being finalized. Once it is approved, we will change our status from a de facto firm to a de jure law firm.

Do you see a growing demand for law firms in Ethiopia?

The practice goes hand-in-hand with the size of the private sector and growth of business activities. But in Ethiopia, the private sector is at a very nascent stage. So is business law practice.

Does this mean there is no need or demand for the services of law firms in Ethiopia?

In fact, the reverse is true. It is difficult to deliver legal services without organizing as an institution. For instance, a corporate client comes with various issues dealing with employment, finance, tax, and intellectual property, among others. One person cannot provide all these services. Therefore, to be organized as a law firm is crucial.

The government also needs the services of law firms. Currently, the government is developing infrastructures through Public Private Partnership (PPP) schemes. The legal aspect of such projects is so detailed that up to 25,000 pages of legal documents could be prepared to streamline the financing of a single project under a PPP program. It is difficult to think of implementing such projects without the involvement of law firms. We are currently working on two big energy projects being implemented through PPPs.

Do you handle litigation cases now?

In the past, I was a leading litigator. But after I started working with foreign investors entering Ethiopia, I have stopped providing litigation services. In fact, the litigation business is over saturated. So, I am no longer a litigator.

If you go to countries such as the UK, lawyers are categorized into barristers and solicitors. Barristers go to courts and handle litigation cases. On the other hand, solicitors are lawyers who support business enterprises during transactions. In the UK, over 90Pct of lawyers are solicitors, while litigators (barristers) comprise less than 10Pct.

Reversely, 99Pct of lawyers in Ethiopia spend their time on litigation. Therefore, the litigation work is highly saturated. But there is room for lawyers who facilitate transactions and support corporate activities. In this area, there is no competition thus far.

But sometimes, a corporate client might have a litigation case. For instance, MLA recently handled Crown Plaza's trademark dispute in Ethiopia. Other than that, we do not work with individual litigation clients anymore.

"Local companies do not think lawyers can add value to their businesses until they face trouble."

Some big companies have their own legal departments with many lawyers even. In that case, why do they need your services?

You are right, many of our clients, have in-house lawyers. But these lawyers don't have all-rounded knowledge regarding the laws of the country. Therefore, in-house lawyers need support from law firms with specialized services in certain laws. When we recently represented Coca-Cola in a competition case, we worked with the company's in-house lawyers.

Is there competition from other de facto law firms while trying to handle foreign investors' cases?

There is no competition. This is because most Ethiopian lawyers handle litigation cases. The only time we have faced a challenge in our services is now, because of COVID-19. It adversely affected the activities of foreign companies in Ethiopia. In any case, we don't have problems in finding clients. In fact, business has been reviving as of last September, after more than six months of slow-down.

So what's your major challenge?

Our main challenge is that we cannot find lawyers with the right skill set in the market. For instance, we have clients in the energy sector but couldn't find lawyers specialized in energy.

MLA might look like a big firm but it is insignificant compared to firms operating in Nairobi. Iseme, Kamau & Maema Advocates (IKM), our counterpart in Kenya, has over 100 lawyers. Yet it is not the top law firm in Nairobi. If you go to South Africa, you can find law firms employing more than 1,000 lawyers and other global firms have up to 5,000 lawyers. .

What percentage of your clients are local?

Local companies do not think lawyers can add value to their businesses until they face troubles. We are not working with local businesses because we do not

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It is totally wrong to conclude Ethiopia has no competitive edge in the global economy.”

do litigation. But opportunities to work with more local businesses are on the way. In Ethiopia, there is no corporate culture. Owners control everything. But few are implementing corporate governance to systematically manage their business. Ethiopia is also in the process of joining the World Trade Organization (WTO). This will fundamentally change the business landscape.

In addition, Ethiopia has ratified the 1958 New York Convention on the Recognition and Enforcement of Arbitral Awards. If an Ethiopian business signs a transaction contract with a foreign company, disputes could be subject to international dispute settlement mechanisms. These developments will definitely change the way we do business and necessitate professional legal advice.

How much do you charge for your services?

We charge USD300 an hour.

Can we talk about MLA's revenue last year?

It was over a million dollars. Our rate seems expensive considering Ethiopian standards but our partners in Nairobi charge far above our rate. In the UK, they charge GBP1,000.

Do you offer pro bono services?

We uphold pro bono services seriously. We participated in the preparation of the new Ethiopian investment proclamation and regulation. We also supported the preparation of the startup proclamation by the Job Creation Commission. MLA has also rendered services in the crafting of the new Commercial Code of Ethiopia.

What about for individuals?

Yes, we provide services for individuals free of charge. For instance, we have handled cases of people with HIV, refugees, and physically handicapped people. In fact, we allocate dedicated time for this purpose annually.

How do you assess the impact of the instability in Ethiopia on the flow of foreign direct investment (FDI)?

The annual flow of FDI to Ethiopia has been around USD3 billion until recently. But it declined by 24Pct in 2019. The reason could be the instability we have seen in the last two years. In fact, political stability is one of the most critical criteria determining the destination of investors.

All the information foreigners have been receiving creates a negative image about Ethiopia. For FDI flow to increase there needs to be a very stable, consistent, and comforting political environment.

Let alone FDI, Ethiopian investors are not welcome to invest outside their native region. This is attributable to the political situation in the country. But the government is trying its best to attract investors from abroad. Is this not a paradox?

I do not see it as a paradox. It is more of a survival issue. The government must do whatever it can, including attracting FDI to sustain economic growth.

Although the government is investing huge resources to attract foreign investors, like developing industrial parks, the benefit ordinary citizens get is low because they are minimally paid at less than USD30 a month. How can we rectify this?

Most foreign investors and companies are coming to Ethiopia looking for cheap labor. There are millions of unemployed people in Ethiopia looking for jobs. Foreign companies pay less because they know there is no shortage of labor.

On the other hand, most foreign investors in Ethiopia, including those operating inside industrial parks, know they cannot succeed if their employees are unhappy.

To reconcile these realities, the government should introduce a minimum wage that is legally binding across Ethiopia.

Does the new investment proclamation favor domestic investors?

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I was a member of the working group when the new investment law was drafted. The proclamation opened doors wide for both local and foreign investors equally. Domestic investors are required to have an investment permit only if they want incentives such as corporate income tax holidays and duty-free privileges. But it does not give special treatment to domestic or foreign investors. They are expected to compete.

Don't you think domestic investors should have an advantage over foreign investors?

Ethiopia cannot compete with any country, with the current high production costs. On the other hand, the local private sector must flourish and fill the investment gap. So, there must be an optimum utilization of resources.

What must be done to uplift the local private sector?

If the Ethiopian private sector has to grow, it must be able to compete with other countries. When this happens, Ethiopian companies can operate outside of Ethiopia and become successful. But an Ethiopian firm cannot follow a pan-Africanist business model and operate in other African countries because there is no legal framework allowing capital account movement. This means, an Ethiopian company cannot go and open a business in Djibouti or Kenya. For instance, MLA is successful in Ethiopia but if we want to open an office in other countries, we cannot. Ethiopian businesses are cursed to stay local.

Limited access to finance is the main obstacle for the growth of the private sector. What should be done to remedy this?

Banks disburse loans for those who already have money. So, small and medium enterprises (SMEs) become the victim. SMEs are most affected by the absence of [adequate and affordable] finance in Ethiopia.

Modern economies have many specialized banks like investment banks. Ethiopian banks have no investment wings. There is no portfolio investment in Ethiopia.

There are some foreign investors who want to finance SMEs. But Ethiopia's investment law does not allow foreigners to invest less than USD200,000 in Ethiopia. In the USA, countless SMEs mushroom from the ground, using equity financing. But in the case of Ethiopia, there is no legal framework allowing equity and angel investors to inject finance into startup ideas. But in Ethiopia, as the minimum investment capital is USD200,000, many foreigners are unable to invest in startups. Private equity investors and other investment funds must be able to move without pre-conditions.

Can floating shares be part of the solution for the access to finance problem?

In other countries, public fund mobilization has its own regulatory body. The fund mobilizers in Ethiopia can do whatever they want because individuals try to build public trust first only until they collect funds to execute the process.

Investment is highly regulated in Ethiopia. The central bank mandates financial institutions not to invest above a certain level. The financial industry has capital limitations. It is critical for Ethiopia to permit foreign institutional investors to bring their own capital and fill the investment gap.

Do you think Ethiopia will benefit by joining the WTO?

Accession to the WTO is critical for Ethiopia to encourage economic competition and sustain growth. Ethiopia cannot grow isolated without integrating with the global economy. We must produce goods and services and trade with the rest of the world based on the principles of free trade. I do not believe Ethiopia's economy will see a drastic change without accepting free trade and joining institutions like the WTO.

Ethiopia's economic challenges are enormous and we lack capital and technology to develop our local investors. So we have to attract more FDI to fill in the gaps. For that, Ethiopia needs to integrate more into the global economy. I believe Ethiopia needs a quantum economic leap to solve the gigantic economic challenges that it currently faces. For that to happen, we need to open up the economy.

> **"Accession to WTO is critical for Ethiopia to encourage economic competition and sustain growth."**

But Ethiopia cannot meet international standards now.

When a least-developed country such as Ethiopia joins the WTO, it is granted a grace period to adapt itself and start meeting certain standards gradually. The WTO allows us to exploit the global market.

But is it feasible to compete globally as we are not even competing well in our own market?

It is totally wrong to conclude Ethiopia has no competitive edge in the global economy. We must prepare ourselves and join the global economy and trading platform. We must prepare a strategy to utilize the WTO. We have abundant potential. If we negotiate well, joining the WTO can help us improve on our limitations and maximize the benefits from our promising potential. Joining the WTO is not detrimental to Ethiopia's growth.

What are the benefits of joining the WTO for Ethiopia?

It offers market access. This ignites domestic economic growth and boosts exports. The amount of product and service exports from Ethiopia will grow exponentially. Ethiopia's export revenue could not pass USD3 billion for the past decade now. The organization is a great opportunity to save Ethiopia's export sector.

Do you think public institutions in Ethiopia have the capacity to regulate the market, especially when the economy integrates more with the global economy?

Some institutions are good; some are incapable. But the overall performance thus far is below average. I doubt if the National Bank of Ethiopia has the capacity to regulate foreign banks, as it is now. Government must redirect its focus from traditional roles to continuously build its capacity.

“I try to distance myself from politics.”

How do you evaluate Ethiopia's consumer protection laws?

Consumer protection is a new concept for Ethiopia. Consumer protection and liberalization complement each other. For instance, telecom liberalization ends the monopoly and creates alternatives for the consumer. Liberalization is pro-consumer. Because of the liberalization and partial liberalization of the telecom sector, costs will decline and services will improve—benefiting the consumer. The Trade, Competition, and Consumer Protection Authority was established ten years ago and is facing several challenges in terms of ensuring consumers' rights.

Do you participate in the Ethiopian Lawyers Association?

We support the association financially and in other technical areas. But litigation practitioners dominate the bar. The association is more focused on the penal code and court litigation when organizing workshops. This does not interest MLA much. But we support and participate because the professional association is necessary. In fact, in the past I have served as Secretary General of the association for five years.

How has the change of administration in government and the reforms implemented in the last two and a half years impacted the profession?

In the past, the Office of the Attorney General could revoke a lawyer's license for the slightest mistake. I have seen many lawyers and offices like mine vanishing because their license was revoked just because they didn't support the politics. There were also lawyers and law firms that started from scratch and grew with the support of government officials. This does not give you confidence. I do not think this is the case currently. It is better now, although we are not 100Pct protected.

What is your political inclination?

I totally distance myself from politics. Currently, I am working with over 300 corporate clients. So, my political inclination will affect them. If I become a member or supporter of a certain party, my clients might be labeled similarly. So I distance myself from politics.

We have agreements with international law firms. The agreements stipulate that MLA must distance itself from all political activities, meaning I cannot even contribute money to any political party or participate in any party meeting. The professional service we provide requires independence. EBR

NATION'S FIRST VIRTUAL CAREER EXPO FOR YOUNG PEOPLE MOVES INTO ROUND TWO

Unique opportunity for young people to apply for positions and meet potential employers virtually in Addis Ababa, Ethiopia on 4 December 2020. Dereja.com, a business unit of Ethiojobs.net (IMS), in partnership with the Jobs Creation Commission and with the support of the Mastercard Foundation announced the launch of the second round of its Virtual Career Expo.

In response to the outbreak of COVID-19, Dereja.com along with its partners elected to present the annual career expo virtually. The Virtual Career Expo held on 27th August, 2020 was the first ever virtual career expo to be held within Ethiopia. Building on the success of the first event, and in an effort to increase the impact of this initiative, a second round will be held from December 8 to 18, 2020.

The first expo connected more than 1,000 recent graduates with 80 employers. Candidates were given the opportunity to virtually meet employers, apply for various positions, talk with recruiters via live chat or video call, and attend professional and personal development webinars. The second round in December is expected to bring double the participants and, over four days, reach students from seven universities through the support of the Jobs Creation Commission and the Mastercard Foundation.

The Mastercard Foundation's Young Africa Works strategy, launched in Ethiopia in 2019 with an aim of enabling 10 million young people in Ethiopia access to dignified and fulfilling work by

In Partnership with Jobs Creation Commission ETHIOPIA

With the Support of Mastercard Foundation Young Africa Works

Organized by dereja.com

2030. In an effort to achieve this goal, the Mastercard Foundation has partnered with government entities, such as the Jobs Creation Commission, the private sector, academic institutions, and young people.

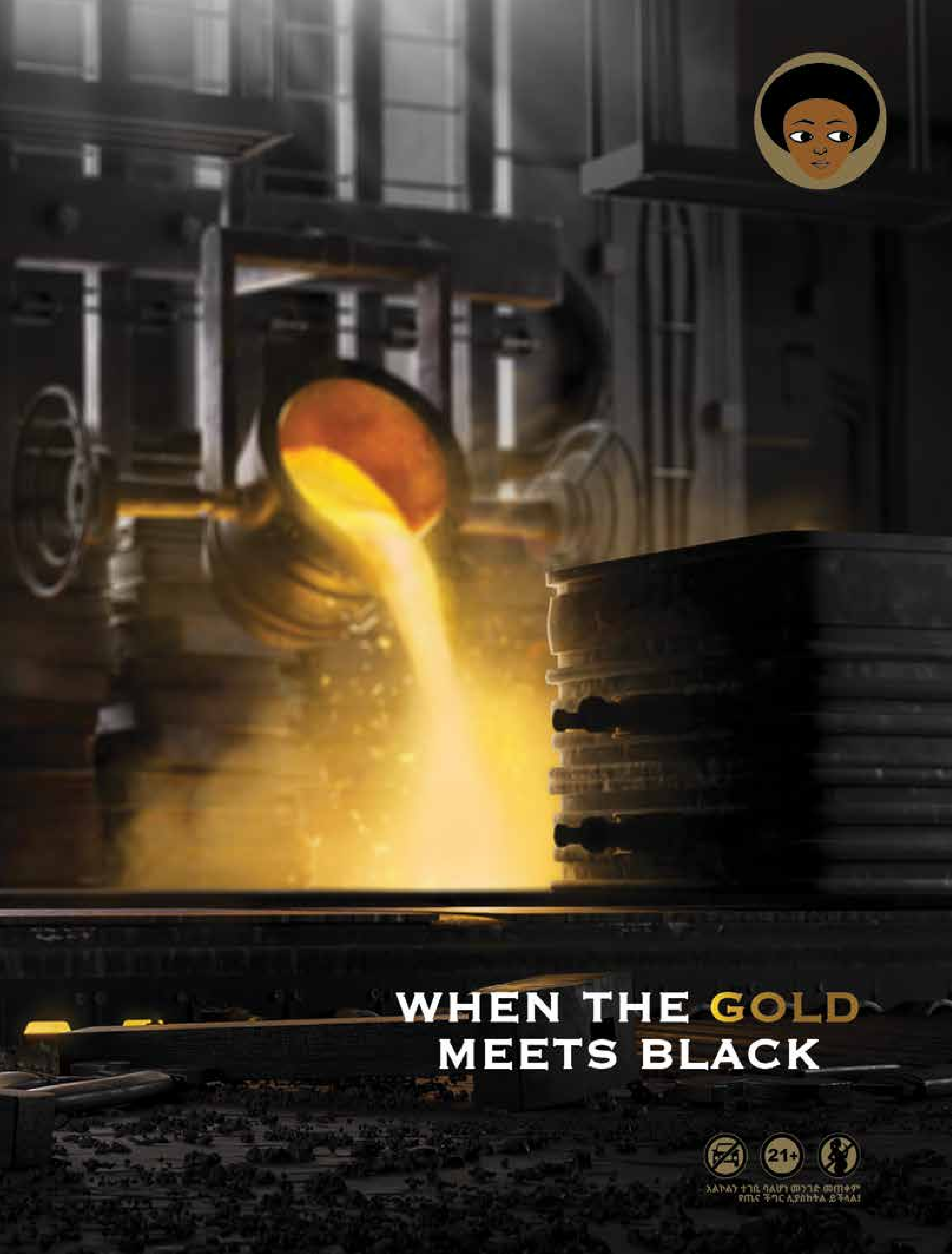
In Ethiopia, Young Africa Works focuses on sectors that have a strong potential for the creation of work for young women and men. In support of this strategy, the Mastercard Foundation is partnering with Dereja.com, a business unit of Ethiojobs.net and a company dedicated to supporting the nation's youth in securing employment opportunities through three major interventions: the job portal "Dereja.com," training program "Dereja Academy," and the job fair "Virtual Career Expo".

"With the support of the Jobs Creation Commission and the Mastercard Foundation, Dereja.com will help develop candidates that surpass employers' expectations. The Virtual Career Expo will present the caliber of candidates that an employer can expect from Dereja.com," stated Dereja.com Program Director, Siham Ayele. "The first cohort of Dereja Academy included 145 graduates of which 46 have already managed to secure employment opportunities and we are expecting to reach 100% placement by the end of the year," added Siham.

"We are excited to see Dereja.com continue to train, develop, and secure employment for young people through this second virtual expo. Across Ethiopia, there are thousands of qualified young people who would thrive in the workforce if they were given the opportunity," said Mastercard Foundation Ethiopia Head, Alemayehu Konde Koira.

The transition of Dereja.com's interventions to a virtual platform has yielded positive results with 700 of the 1,000 participants in the first Virtual Career Expo linked with employment opportunities. The second round is expected to bring more than 4,000 new graduates from regional institutions such as Hawassa, Jimma, Bahir Dar, and universities in Addis Ababa such as AASTU, AAU, St. Mary's, and Unity. This will be a must-attend recruitment event for 2020 that young people will not want to miss.


COLD GOLD


WHEN THE GOLD
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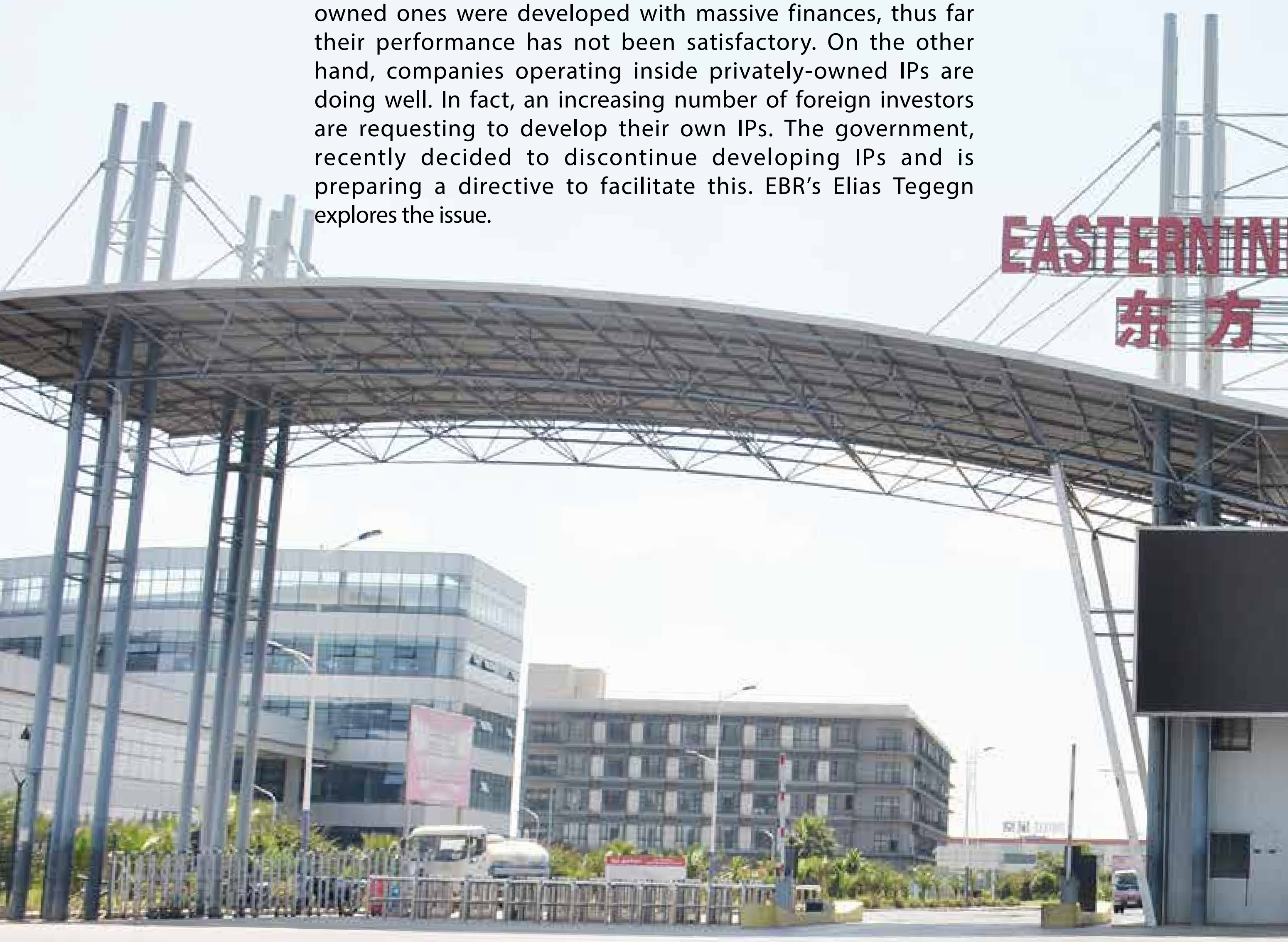
PRIVATE LANE TO INDUSTRIALIZATION

There are seven privately- and 10 government-owned industrial parks (IPs) operating in Ethiopia. Although the government-owned ones were developed with massive finances, thus far their performance has not been satisfactory. On the other hand, companies operating inside privately-owned IPs are doing well. In fact, an increasing number of foreign investors are requesting to develop their own IPs. The government, recently decided to discontinue developing IPs and is preparing a directive to facilitate this. EBR's Elias Tegegn explores the issue.



Haibo Manufacturing is a Chinese company producing children's clothes and adult suits. The company relocated from China in 2016, and installed its factory inside Eastern Industrial Zone (EIZ), the first privately owned Industrial Park (IP) in Ethiopia. Haibo mainly produces for the domestic market and although it recently started exporting, COVID-19 interrupted its moves.

"More and more Chinese investors are coming to Ethiopia and they prefer operating collectively in such industrial environments," says Zou Haibo, CEO of Haibo Manufacturing. "Eastern Industrial Zone has a conducive environment enabling smooth communication and workflow, which contributed to our success.

Considering the growing demand for its products both in the international and domestic markets, Haibo Manufacturing is finalizing the construction of two sheds of 5,000 square meters each, in addition to the 8,500 square meters shed it is currently using inside EIZ. The company currently employs

2,000, out of which 60 are Chinese trainers and supervisors. The average monthly salary for local labor inside private IPs is reportedly close to USD50, far behind China with an average of USD300.

Located 30 kilometers south of Addis Ababa, EIZ currently houses 131 companies, engaged in cement manufacturing, automobile assembly, steel rolling, and textile and garment production. It currently rests on 400 hectares of land with plans to expand with an additional 167 hectares.

Established 13 years ago at a cost of USD146 million, the IP is entirely owned and managed by the Jiangsu Yongyuan Group, a private Chinese investment company with 12 subsidiaries in China, two in the United States, and five in Ethiopia. All its subsidiaries located in Ethiopia are housed inside the park.

Currently, there are seven operational private industrial parks in Ethiopia, including Huajian and George industrial parks. "Many of those interested to invest in Ethiopia are requesting to establish private IPs," says Anbessaw Serebe, Industry Park Facilitation Directorate Director at the Ethiopian Investment Commission (EIC). "Such investments are grand and cannot be implemented by only a few investors."

Currently, 10 private industrial parks are in the pipeline, of which seven are proposed by Chinese developers, according to EIC data. "The commission is finalizing facilitations to give the green light for the construction of at least eight new private IPs in the current fiscal year," adds Anbessaw.

"Many South Korean companies have strong ambitions to establish their own industrial parks in Ethiopia. They are late compared to their Chinese peers but only because of the foreign currency shortage in Ethiopia," explains Dagnachew Befekadu, Director at EKOS Steel Mill, a South Korean company which started producing deformed bars and wire rods in 2018, on a 100,000 square meter plot in Dukem town.

While factories inside private IPs enjoy a dedicated and uninterrupted supply of water and power, as well as access to waste treatment plants, factories outside industrial parks operate inconsistently with utilities shortages and outages, among other challenges. For instance, although EKOS Steel Mill has the capacity to produce 150,000 MT of deformed bars and wire rods annually, it only utilized 15Pct of its capacity thus far, mainly due to power shortages.

One-stop services related to certification and licensing, customs and tax, and banking are provided inside IPs, making them preferable to operating individually outside parks. Other privileges ensue. Corporate income tax holiday for as much as fifteen years, retention of foreign currency from exports, duty free import of raw materials, freight discounts, exemptions from custom duties, and other facilitations are provided to companies located inside IPs.

Companies inside public IPs lease factory sheds at USD2 per square meter, for up to four years, growing to USD3 after 11 years. Water costs ETB1.75 to ETB11.60 per cubic meter, depending on the tariff category, while electricity costs USD0.045 per kWh. On the other hand, private IPs lease out steel structured factory sheds with a traveling crane at USD37.5 per square meter. The minimum lease time is three years, while the maximum is five.

Companies operating inside the seven privately owned IPs generated USD27.1 million by exporting manufacturing goods in 2019/20. Eastern Industrial Zone leads by generating USD14.7 million, followed by Huajian with USD4.9 million.

On the other hand, the 11 government owned IPs generated USD117.5 million during the last fiscal year. The flagship Hawassa IP, housing 22 foreign companies in its 52 factory sheds, leads with USD63.6 million, followed by Bole Lemi IP, which generated USD38.9 million

Currently, close to 77,000 people are employed both in private and government IPs. As of March 2020, Hawassa employed 27,700, while Eastern Industrial Zone employed 19,200 people. However, there is a high turnover rampage in government owned IPs due to low salaries. For instance, more than two-thirds of new employees working inside government owned IPs left their job during the first quarter of 2020/21 fiscal year. The average monthly salary for local labor inside private IPs is USD50, higher than the USD35 offered by companies operating inside government owned IPs.

On top of high staff turnover, government owned IPs are also struggling with weak domestic supply chain integration, an absence of foreign currency to import inputs, and low labor productivity. Although government owned IPs were built with large amounts of money—partly financed by external debt—their export performance remains far behind initial targets. As a result, the government started outsourcing the management of IPs under its control to private firms.

"The government will no longer develop industrial parks, after finalizing the ones under construction."

Lelise Neme,

Commissioner of the Ethiopian Investment Commission

Recently, the government decided to remove itself from developing IPs. "The government will no longer engage in developing IPs, after finalizing the ones under construction," stated Lelise Neme, Commissioner of EIC, during the first quarter report briefing on October 2020. "From now on, the government will limit its role to encouraging private developers as well as executing mega projects through Public Private Partnership (PPP) schemes."

"The government has now understood that private IPs are a better alternative to accelerate development in Ethiopia," stresses Anbessaw.

Metassebia Hailu (PhD candidate) who consults foreign companies investing in Ethiopia, agrees. "Private IPs are more advantageous to foreign firms rather than government-owned IPs," says Metassebia. "The private sector can build industrial parks and rent to manufacturers or manufactures can install their own parks collectively ."

Metassebia says the first option is more beneficial towards boosting local investment. "It also helps manufacturers elevate their competitive advantage."

Currently, a new directive aimed at facilitating and regulating the development of private IPs is under preparation, according to Anbessaw. Any private investor who would like to develop an industrial park or zone in Ethiopia is expected to develop a minimum of 75 hectares of land and invest over USD75 million, according to the draft directive. The investment board led by the Prime Minister is expected to ratify the new directive soon, according to Anbessaw. EBR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DESPITE EXCESS LIQUIDITY, BANKS ARE DISBURSING LESS CREDIT

Following the replacement of currency notes, the banking industry's liquidity level grew six-fold compared to the previous year. Close to ETB45 billion of fresh savings entered the banking system, while 2.5 million new saving accounts were opened. Despite surplus liquidity, commercial banks are not disbursing credit as per their capacity. Some attribute this to the political violence and instability in Ethiopia in the past five years, which has diminished the appetite of credit seekers. Others claim banks are currently holding back from giving loans because economic and business activities are slowing down and default rates are increasing. EBR's Ashenafi Endale explores.

Desalegn Tolera, is a Credit Analysis and Portfolio Management Officer at Awash Bank (AB). Over the past decade, he witnessed the joyful days of the banking industry where liquidity levels peaked and huge amounts of credit were disbursed. Desalegn also remembers the darkest moments where the vaults dried up and banks suffered from a liquidity crunch, which ultimately shrank the amount of credit they disbursed.

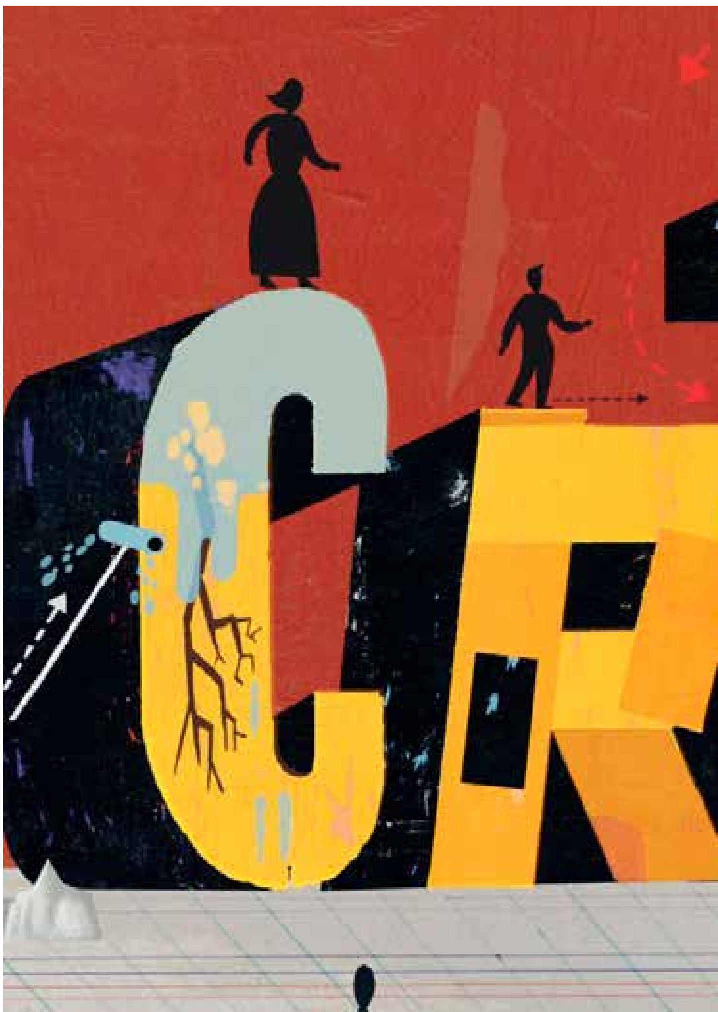
However, he has not come across such a contractionary situation as currently observed in the banking industry. Due to the replacement of currency notes, the liquidity level of the industry has improved six-fold since September 2020. Close to ETB45 billion in fresh savings and 2.5 million new saving accounts were welcomed by banks.

"During the demonetization period, a minimum of ETB500 million in savings came to AB, on a daily basis," explains Desalegn. "This boosted the bank's deposits immensely."

Banks are now more liquid than ever, but the amount of credit they are disbursing is relatively small. "Almost all banks are currently refraining from giving loans, especially as of November," says Desalegn. "Banks are currently disbursing loans to only a few sectors."

Such a surprising turn of events is witnessed in all commercial banks operating in Ethiopia. Although industry players agree with the fact that the amount of credit disbursed by the banking industry is now relatively small compared with previous times, they are divided on the factors that led to this situation.

Some argue the demand for credit has been gradually



declining after the country was submerged in political violence and instability for the past five years. "Due to the instability across the country, loan applications submitted to banks have declined," argues Muluneh Aboyah, Vice President of credit management at the Commercial Bank of Ethiopia (CBE).

The decline of demand for credit gained momentum following the spread of COVID-19 in March 2020. During this time, commercial banks had very little loanable funds and they were under a severe liquidity crunch resultant to close to two-thirds of the total currency circulating in the country being outside the banking system. Similarly, savings fell to ETB21.1 billion during the third quarter of 2019/20, from ETB25 billion during the previous fiscal year's corresponding period, according to the annual report of the National Bank of Ethiopia (NBE). These factors forced the central bank to inject capital into commercial banks to bailout them from the liquidity crisis .

A senior manager at Abay Bank contends the demand for loans declined because business people that required funds for operations and investment were anxious to invest due to COVID-19 and the violence in different parts of the country. Muluneh says even credit to cover operational costs drastically declined after COVID-19. "The demand for credit from the hotel and tourism sector shrank drastically," explains the Vice President.

During the fourth quarter that ended June 2020, total disbursed loans by commercial banks declined to ETB63.7 billion, down from ETB99.1 billion in the third quarter. The amount is also 15Pct lower than the amount disbursed during the same quarter of the previous fiscal year, according to NBE.

But saving rates and liquidity levels of banks started to improve after the government decided to change currency notes on September 14, 2020. "Savings increased after the demonetization, especially for banks with a larger branch network," Dereje Zebene, President of Zemen Bank, informs.

During the first quarter of 2020/21, savings increased by 600Pct compared with the same period of the previous fiscal year. Close to 2.5 million new saving accounts were opened between September 14 and November 20, 2020, according to Solomon Desta, Vice Governor of NBE, while ETB45 billion in fresh savings came into the banking system in two months' time. This exponentially improved banks' liquidity by six-fold during the first quarter of the current fiscal year, compared to the same quarter last year.

However, some banks could hardly find credit takers, even with their super-liquid stance. "Currently, banks have surplus liquidity but the demand for credit is almost nonexistent," says Alazar Dessie, Financial Consultant and Bank Expert.

Desalegn has a different outlook. "Currently, banks are very selective to which sectors and firms they disburse loans to," he argues. "Almost all banks are transitorily holding back from loaning, especially since November as economic and business activities are slowing down

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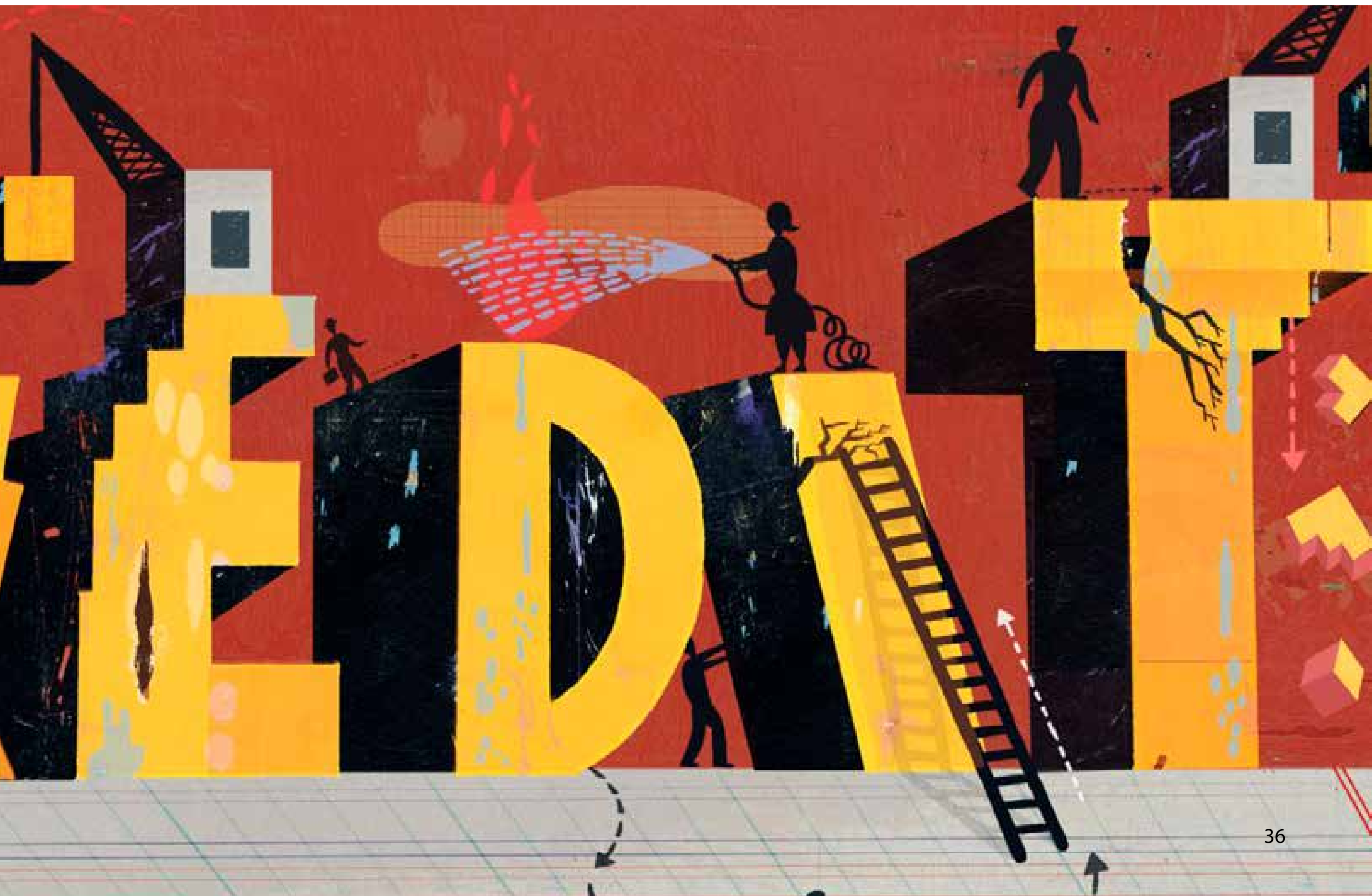

“The reduction of lending rates is inevitable as the supply of credit surpasses demand.”

Following the demonetization of the Birr early Septemeber this year; and the strict regulation of the financial sector, a huge sum of money circulating outside the formal banking industry is fast declining as citizens rush to open new bank accounts and change old notes with new ones.

This has increased banks liquidity by six-fold. How are the banks going to deal with this increased liquidity? Will it lead to reduced lending interest? Will it improve access to finance to cash-starving companies in the agriculture and manufacturing sectors?

EBR had an audience with Muluneh Aboyeh, vice president of risk and compliance management at the Commercial Bank of Ethiopia (CBE) to discuss about the possible impacts of excess liquidity in CBE and the banking industry at large and how they are working to utilize it.

What are the impacts of COVID-19 on the banking industry?

As COVID-19 interrupted mobility significantly, the transport, tourism, and hotel sectors are adversely affected. Import and export sectors are also affected. This had a significant impact on the economy, reducing the forecasted annual growth rate from 9Pct to 6.1Pct.

Banks also lost revenue streams and foreign currency that could have been generated from sectors affected by the pandemic. In addition, banks are forced to allocate additional resources to retain employees. For instance, the Commercial Bank of Ethiopia (CBE) has been allocating additional funds to cover employees' salary and operational costs during COVID-19, without generating extra revenue.

However, the impact of COVID-19 was not as severe in Ethiopia, mainly because banks extended debt repayment periods and cut lending interest rates for affected sectors. In terms of deposits, ETB170 billion in additional deposits entered the industry during the first quarter of the current fiscal year while ETB32 billion in new loans were disbursed.

COVID-19 has even brought some opportunities to the banking sector. Especially, the use of digital financial services and digital banking outlets has increased during COVID-19. Close to 50Pct of CBE's transactions since last year went through digital means. Mobile banking, POS, e-wallet, and ATM transactions have all increased. This has also significantly reduced banks' operating cost.

"COVID-19 has brought some opportunities to the banking industry."

Is the demonetization responsible for the excess liquidity observed in the banking sector currently?

There was a big liquidity problem until last December. But the liquidity crunch started easing even before the demonetization. This was because government injected ETB15 billion last year. Secondly, the mandatory 27Pct National Bank of Ethiopia's (NBE) bill purchase, repealed last year, coupled with the maximum cash holding and cash withdrawal limits introduced by NBE last year have also eased the liquidity crunch, to a certain degree. These instruments served to bring money back to banks. The liquidity problem was solved through policy driven solutions, apart from the demonetization.

Although you said the liquidity level of the banking sector improved before the demonetization, the amount of credit disbursed declined during the fourth quarter of 2019/20.

Between June and September, economic activities are usually slow. So, banks do not disburse credit during this period. Credit disbursement usually starts taking off after October when the economy starts to pick up and harvesting season starts.

What is the level of liquidity before and after the demonetization?

Unlike past trends, deposits mobilized by banks has increased exponentially during the first quarter of this year. Banks' deposits increased by more than 600Pct during this period, compared to last year's first quarter. This indicates excess liquidity is coming to banks.

But the level of credit disbursement doesn't correspond with the excess liquidity. This means the interest rate that must be paid on savings deposits is piling up but banks are not generating income from interest related activities. Will this affect banks' income?

There is no question about that. Our major source of revenue is intermediation. Banks collect savings from the public, then lend it to businesses, and retain the margin. Over 70Pct of the banks' revenue comes in the form of interest income. So, when the amount of credit disbursed declines, interest income also decreases. On the other hand, banks still pay interest rates on savings and time deposits. As a result, their interest expense rises. So, banks must think creatively, to find out how to utilize this huge surplus liquidity.

Experts argue that the current lending interest rate is high and banks should reduce the rate, as the mandatory NBE bill purchase has been repealed. Do you see room for cutting lending interest rates?

Many banks already revisited their lending rates after NBE repealed the mandatory bill purchase. Since banks are becoming more liquid, they are cutting interest rates to attract credit takers and penetrate the market. The reduction of lending interest rates further is inevitable as long as the supply of credit surpasses demand. In fact, there are such moves among some banks. Obviously, the margin between saving and lending interest rate is wide.

On average, 70Pct of banks' revenue comes in the form of interest income. Are there reasons that restrict banks from diversifying their sources of revenue?

Ethiopian banks do not charge anything for the services they provide. Except from importers and borrowers, other clients get banking services for free. Before core banking was introduced, banks used to charge for local transfer service. But now it is free of charge.

> **Credit disbursement usually starts taking off after October when the economy starts to pick up."**

Ethiopian banks have lost the majority of their sources of revenue apart from interest income. In other countries, income from transactions constitute the lion's share of revenues for banks. If somebody transfers or withdraws from a local branch, he will be charged. In Ethiopia, withdrawals, transfers, deposits, and passbook replacement services are provided free.

Paradoxically, withdrawing money from an ATM is charged, while withdrawing money from a branch is not charged. As a result, banks are forced to rely heavily on interest income.

CBE used to generate large amounts of foreign currency from remittances. Has it been affected by COVID-19?

The flow of remittances declined at a national level due to COVID-19. Yet, the informal hawala market is still attractive. The diaspora's income is also affected due to high layoffs.

Rather, export earnings grew during COVID-19. We continued exporting agricultural products, because Ethiopia did not shut down completely. Ethiopia's coffee is availed at larger volumes in the international market. Although flower exports from Ethiopia were affected during the early months of the pandemic, it recovered immediately and grew by more than 20Pct.

How do you evaluate the impacts of conflict and instability on the performance of the banking industry?

The instability slashed investors' confidence and reduced the flow of foreign direct investment. As a result, the demand for credit declined. This has adverse effects for the banking industry.

The less-incentivized service sector outperformed the much-sought growth of the manufacturing and agriculture sectors. Many agree that the service sector is bloated because banks prefer to fiancé businesses which have short term and immediate returns. Why do banks shy away from financing long term projects?

You are right; banks prefer to finance projects in the service sector because their loans can be collected shortly. Financing businesses in the service sector has an immediate and high return rates. Besides, the provision of loans to the service sector does not require sophisticated expertise.

On the other hand, financing manufacturing and agricultural projects take a long time. The default rate is high. Moreover, it requires banks to establish teams of expertise to study and follow up the progress of the financed projects. Import, on the other hand, isn't as complicated as manufacturing. It does not require sophisticated skills and long project appraisal steps.

Unless the central bank enforces mandatory laws, private banks will prefer to channel more resources to fast returning businesses in the service sector. The government needs to regulate the sector efficiently if more financing has to go to manufacturing and agriculture.

In addition to tax cuts and duty-free privileges, the two critical productive sectors -- manufacturing and agriculture -- need increased financing with low interest rates. This needs policy direction. The government has the responsibility og rectifying such economic woes. So far, it is only CBE and DBE, which have been financing long-term projects on a massive scale. The government can force private banks to do the same.

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and default rates are increasing."

Muluneh says for whatever reasons, banks now have surplus cash but the amount of credit they disburse is comparatively small. "This means that interest rates that must be paid on savings deposits are amassing but banks are not generating income from interest-related activities. This will have a profound effect on the performance of banks at the end of the year," argues Muluneh.

Interest income is the dominant source of revenue for most commercial banks operating in the country. According to a study conducted by Cepheus Research and Analytics in May 2019, CBE, Abyssinia, Nib, Awash, and United are the top banks that relied heavily on income from interest between 2008/09 and 2017/18.

In 2019/20 fiscal year, over 70Pct of banks' revenue came from interest related activities, according to data from NBE. For instance, out of CBE's total income in the last fiscal year, the share of interest income was 78Pct. It was similarly 74.2Pct for Awash and 80.33Pct for Dashen. This shows that most commercial banks are highly dependent on the revenue generated from interest related activities. However, fees from foreign exchange dealings and commissions were a more relevant revenue source for other banks, namely Zemen, Debub Global, Enat, and Addis International, according to Cepheus' research.

According to the latest annual report published by NBE, the average lending interest rate is 14.25Pct. Desalegn argues most banks are dependent on interest income, and as such, they tend to charge high lending interest rates. "There are banks that charge 18Pct but the maximum rate Awash charges is 15.7Pct. This is part of the reason why people and businesses shy away from taking credit. Lending interest rates are very high."

To boost the demand for credit, Awash already reduced rates for some sectors. "Over the last three months, our bank reduced the lending interest rates for hotels and flower growers to 7Pct, equal to the interest rate paid by the bank on savings deposits," explains Desalegn. "As a result, Awash lost more than half a billion Birr from interest income."

CBE has reduced lending interest rates for some sectors while other banks are also considering following suit in order to disburse the loanable funds at hand, which are sitting idly and incurring cost.

Experts say there is room to cut lending interest rates even further. Following the base saving rate increment by NBE for saving and time deposits by two percentage points to 7Pct in first quarter of 2018/9 commercial banks ensued to revise their interest rate structure. Currently, the average interest rate on savings deposit is 8Pct. With average lending rates at 14.25Pct, banks on average enjoy a spread of around 6.25Pct. But maximum lending interest goes up to 21pct.

"This could have been permissible before NBE lifted, in November 2019, the mandatory purchase of NBE bills equivalent to 27Pct of gross loan disbursements," argues Desalegn. "However, this is not the case now. So, the central bank must cut the base interest rate."

"Banks are considering cutting lending interest rates but not because of the declining appetite for loans, but rather because close to 15 new banks are in the pipeline to enter the market," argues a senior manager at Abay Bank. "When the number of banks increases, no doubt there will be high competition to tap onto customers. Cutting loan interest rates will be one of the tools to compete with for current banks."

Gudeta Kebede (PhD), Lecturer of developmental economics at Jimma University, has a different take on the issue. "Even if banks slash loan interest charges, investors still won't take out loans, unless peace and stability is realized in the country. Even if the conflict can be settled in six months' time, investment and business activities need longer to revive."

But if banks must reduce the interest rates they charge, they should first diversify their sources of revenue by boosting non-interest related activities, according to experts. Until now, the main non-interest source of revenue for banks has been via international money transfers. But on the other hand, the success of banks in providing financing to exporters and facilitating foreign direct investment flow is minimal.

Besides reducing loan charges, Yidnekachew Tegegn, Importer, stresses that banks have to improve in various areas. "There are many hurdles that discourage credit seekers from taking out loans. Although banks used to request high collateral fearing default, they recently raised their collateral requirements even higher," says Yidnekachew, who claims he recently could not access credit, with the same asset he used as collateral before.

The liquidity level of the banking industry improved by six-fold during the first quarter of 2020/21 fiscal year compared with the previous year.

Indeed, the banking system in Ethiopia is highly collateralized. Banks require fixed assets 234Pct of the credit value as surety to provide loans, which is much higher than the 120.8Pct collateral rate in Kenya. In addition, the majority of the population is excluded from credit markets as they lack the array of productive assets such as houses, buildings, and cars, readily accepted as collateral by Ethiopian banks.

In order to rectify this situation, the Parliament passed a law that forces financial institutions to accept movable assets such as livestock, patents, land operating rights, land ownership rights, warehouse receipts, and intellectual property rights as collateral. Yet, only time will tell the effectiveness of such mechanisms. EBR

Fitness Venues REMAIN HOLLOW THREE MONTHS AFTER REOPENING

In recent years, the number of people who go to gymnasiums and modern fitness facilities in Addis Ababa and other regional cities has been growing steadily. But this changed after the declaration of a state of emergency and a prohibition of sporting activities at all levels by the government in March 2020 in order to curb the spread of coronavirus. Although the prohibition was lifted and fitness centers opened their doors with all the COVID-19 prevention measures and protocols three months ago, most of the previous gym-goers didn't return to the fitness venues. EBR's adjunct writer Abiy Wendifraw explores.

Meti Bahiru, 27, had been a regular gym member until the first COVID-19 case was reported in March 2020. Following the declaration of a state of emergency by the government to curb the pandemic, sporting activities at all levels halted. "I am not doing any physical exercise these days," says Meti. "In fact, it has been almost eight months since I became physically inactive."

Though most regular members, like Meti, are yet to show up, gyms and fitness centers are already reopening after the parliament lifted the ban on sporting activities with all necessary precautionary measures. On the immediate press briefing given in September by Dube Jillo, Deputy Commissioner of the Ethiopian Sport Commission, serious measures would be taken on those breaching the COVID-19 protocol.

"We had to get governmental approval before the reopening on October 1 and our facilities have been frequently checked by officers from the regulatory body," says Addis Bizuneh, Supervisor at Tilla Spa & Fitness. "We are implementing different measures beyond the protocol officers expect from us."

Addis explains that staff work hard to keep the space safe for their customers and to make sure there is proper physical distancing and regular cleaning. "Now we are receiving customers through

reservations because we do not allow more than eight people in the gym at a time. We take a 30-minute break for cleaning and disinfecting before another group of eight arrive. To keep the required distance between people, we have sealed every other exercise machine with 'out of order' signs. Precautions are being taken here to protect our customers," says Addis.

However, all the measures and protocols implemented by other fitness centers in the city might not persuade the majority of previous gym members. Many still prefer to exercise in private, even three months after the reopening announcement.

Fromsa Derese, 41, is struggling to decide whether it is safe to utilize the gym at his work place. "I am diabetic and I know I need a regular workout. The same reason is keeping me away from the fitness center in fear of contracting the deadly virus," he says. "The facility is where we share equipment and cleaning wipes. I suppose most people do not avoid touching their eyes, nose, and mouth with their hands while sweating during exercise."

These concerns seem to be shared by many, but only those who have visited the facilities may notice what gyms look like recently. "You will see a longer list of safety measures at the entrance of gyms and fitness centers," says Bezalem Taye, a Physical Trainer who returned back to his work after a while off.

The rules displayed on the board at Alem Fitness Center, located around Wuha Limat, listed 13 major requirements customers should fulfill before starting a workout. Each member will have their body temperature tested upon entry which will be registered on their attendance sheet. Only 10 people are allowed in the center at a time. Customers should maintain at least two meters between themselves and other occupants.

To compensate for the reduced number of members a gym can handle at a time, membership and access fees have almost doubled at some fitness centers. Further, these centers are also compelled to make up for lost time and money. As an example, Alem Fitness Center's three branches combined lost expected revenues in excess of ETB5 million, since covid19.

Based on a mini-assessment conducted by EBR in five places of fitness in the capital, the centers managed to retain only 35Pct of the customers they had before March. Three months after the reopening, most previous gym-goers seem uncertain if they will ever return to fitness venues. Some would rather go to public spaces in residential areas where they feel safe to exercise with friends and family.

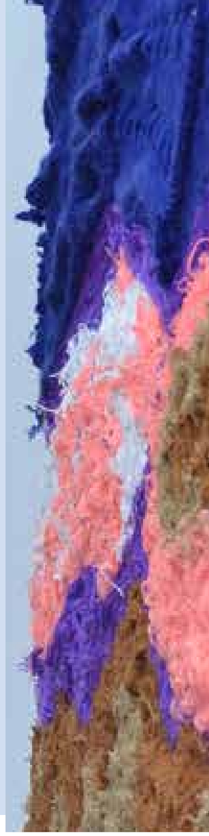
"I may avoid gyms, but I know I cannot avoid workouts forever," says Meti, admitting to gaining more weight. "Incredibly, I added six kilograms in six months. I do not know what will happen to my body and health after another six months. I need to find a way, though it may take me months to rescue myself."

Like Meti, the fitness industry itself might take months, or even years, to rescue itself. The increasing demand for gymnasiums attracted many to invest in modern fitness facilities in Addis and other regional cities. Businesses and public service institutions were also building fitness venues and importing machinery.

"Obviously COVID-19 was a blow to the industry," Addis admits. While the centers try to embrace the changes during a pandemic, the demand for fitness venues, which fueled the industry's boom in previous years, is taking time to return. Centers with less capacity and equipment are struggling to maintain safety measures and protocols that reduce the number of people coming to the facility.

The challenges that the pandemic placed on the fitness industry will not only affect those already in the business. If COVID-19 stays for a prolonged time, it will be a barrier to new entrants wanting to invest in the industry. "I think those who already have larger venues with more space and equipment will enjoy an advantage in the business," says Bezalem. "Fulfilling customer requirements along with government guidelines might help the fitness sector survive." EBR

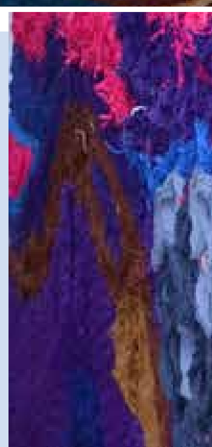
Creating Artwork Using Fabric



Meron Hailu, 34, is an artist employing the unique technique of making artworks with textile materials and fibers rather than paint on canvas. She also teaches at the Ale School of Fine Arts and Design and is among a few Ethiopian artists that have mastered textile art. EBR's Samuel Habtab visited Meron's first solo exhibition to learn about her and textile art.

Globally, the coronavirus pandemic has rendered art galleries inaccessible. Art venues and galleries in urban Ethiopia were also forced to close their doors due to measures taken by the government to control the spread of covid-19. Currently however, few art galleries in Addis Ababa are reopening their doors for art lovers.

Meron Hailu is amongst the first icebreakers that reconnected with gallery attendees. Her first



solo exhibition opened in mid-November, at the Guramayne Art Center, displaying her unique textile and fiber works of art, under the title 'thread of fabrics'. "It is new for Ethiopia, but the technique is not novel in the history of art. I took this medium from our rich culture. Textile threads have been used for long time throughout history. I picked this medium because it matches with the ideas that I want to communicate," describes Meron.

Although the method is globally widely known, only a handful of artists in Ethiopia use this technique. Textile art is one of the oldest forms of art dating back to when humans started making textile products in general and has now wedded with modern art to take its current shape. The form is usually known as quilt art because it uses both traditional and modern quilting techniques to create art objects.

By virtue of the technique of Meron's works, her wall hangings are architecturally inspired. With different visual possibilities, her works catch the eye for long as the colors are not glary and bright. "In color philosophy, bright colors usually satisfy the eye too fast. So, they cannot be looked at for long," explains Meron. "But my artworks attract the audience for long."

Her color choices are also sourced from the deep thinking of society. She usually uses silent, cool, dark, or non-bright colors which she says are difficult to find, unlike the easily found bright colored threads. "Usually, the market tells you which colors society likes most. "Our society usually likes bright colors and they are readily available. I usually cannot find my preferred colors in the market."

Meron says her textile art is an upgrade of Tilet, a beautiful pattern found especially on traditional Ethiopian clothes. "Tilet is art for me. I brought this culture and tradition to the art level."

She says rural women are at the heart of her art philosophy. "Our society uses threads and fibers and women as the pillar of society. Traditionally, women use threads to sew and embroider clothing. My artworks are also made with similar techniques."

Before Meron, two painters, Elias Sime and Kirubel Melke, employed textile threads as a medium, according to Robel Temesgen, Lecturer of alternative media exploration and conceptual art at the Ale School of Fine Arts and Design. "But Meron created extraordinary art out of ordinary textile materials. Her color arrangements, material usage, and value addition to the material is unique," says Robel.

Meron studied print making at Ale and graduated in 2013. She then received her master's in textile designing after studying in South Korea. Currently, she teaches at Ale School of Fine Arts and Design.

Ever since returning from South Korea four years ago, Meron has been making textile art. Before her first solo exhibition, she presented some works alongside other artists. In her latest show, 20 pieces of art were displayed for sale with the most expensive marked at ETB75,000, and least expensive at ETB5,000.

It usually takes Meron six weeks to complete a single artwork on a large canvas. "The big works usually require time and energy. But sometimes, after I finish the work, it might not satisfy me if it fails to represent my idea fully." When this happens, she remakes the piece from scratch, taking even more time.

Although she is excited by the number of visitors who viewed her work and their feedback, Meron claims the recognition given to art in Ethiopia has not improved much over the last two decades. "Our society is far from appreciating artworks. Usually, gallery visitors are the artistic community themselves and this has not changed over time."

Robel agrees. "Covid-19 devastated the art industry that was already struggling even in the normal days. Unless it is supported, it will take years for the art industry to reclaim its former level." EBR

RAHEL TSEGAYE

A SOCIAL ENTREPRENEUR WITH AN EYE FOR CREATIVITY

For long, Rahel Tsegaye has been troubled with the lack of studying and learning materials available for kids in the country. Although she believes quality education starts from an early age, Rahel could not find one for her babies. One day, an idea came to mind that she can prepare kids' education tool kits. Then, Rahel, also a social entrepreneur, established Fidel Tiru, a company that produces teaching materials using illustrations and puzzles for kids aged 1-7 and kids with special needs. EBR's Danait Kahsay explores her work.

Rahel Tsegaye, 43 and a mother of two was creatively inclined from an early age. Although born in Addis Ababa, she was raised in Asmara until she returned to Addis aged 16. After finishing high school, she studied management.

Four years ago, an occurrence Rahel witnessed when she sent her first born to kindergarten in Addis Ababa changed her life. She noticed her kid's lack of motivation to learn. After researching children's education, she found it surprising that there isn't appropriate study and learning materials for kids available in the country. Even if there is, it is imported, prepared in foreign languages, and in limited supply. After observing this, she decided to bridge this void by becoming a social entrepreneur.

"I was full time mom when one day a thought came into my mind that I could prepare education tool kits for children. My journey to social entrepreneuring began at this point," remembers Rahel.

Currently, the mother of two spends most of her time designing, cutting, and producing education kits for children aged between one and seven. The educational tools, made from various materials, are produced in various local languages including Ge'ez and Amharic, as well as English. She also produces special materials for children with difficulties hearing and seeing. The materials include puzzles that help develop problem-solving skills step by step. The demand for her products is growing currently.

She believes quality education starts at an early age. "I thought to myself that children deserve quality education similar to what I received as a child. When googling children education kits, there are lots of materials available for kids to learn easily in other parts of the world. Yet there are none in our country. Especially when it comes to kids with special needs, challenged with a physical disability or autism, for example, there is nothing for them to learn with," she added.

After conducting research about children education kits, she embarked on how to change the idea into a business. She joined entrepreneurship courses for three months and also developed her graphic art skills. Although her husband's income was enough to support her family, she did not have money to rent an office and start her business.

Fortunately, Rahel came across a nonprofit organization—Reach for Change—which helps social entrepreneurs. "I was recommended by people close to me and I applied with my idea at the last minute. Luckily, I got elected for the accelerator program and received ETB40,000. This was the amount it took to officially establish Fidel Tiru in December 2018.

Immediately after her prize, she began building her products to solve the major problem she and her kids were facing. "There is a growing dissatisfaction among the public regarding kindergartens in our country. Almost every child is loaded with lessons in excess of what they need to consume for their age. Both parents and kids are not comfortable with the teaching-learning method."

Rahel explains that the main reason for the general decrease in quality education is because kids are not initially cultivated using proper methods of learning. "Children are being taught education not in a playful way, but in a tedious manner. Children need a variety of learning methods. They learn from experience, lifestyle, environment, and exposure. They need space and time to grow at their own pace."

Fidel Tiru has products available for kids with special needs and regular needs, including illustrations and puzzles for kids aged 1-7 using letters, numbers, and objects. These products target helping kids develop their fine and gross motor skills. The enterprise has also finished preparing children's self-help storybooks on family, agriculture, and health. Currently Fidel Tiru produces 20,000 products annually, available at all All Mart and Lomyad stores, as well as at special needs children centers.

Rahel explains Fidel Tiru is a based on scientific truth. "I began creating solutions from the root of the problem. Thus, we check the real impact of our products through frequent communication with teachers and parents."

Tigist Hailu, a former Flight Attendant and Founder of Dagu Center, a special needs children center under formation, home schools her son who has autism. Her nine-year-old understands things better by seeing and touching.

Tigist has been Fidel Tiru's customer for a year. Recently however, she has found the products to be very useful. "The

kit helped me better communicate with my son."

For instance, when Tigist wants to go to church with her son, she shows him a picture of a church from the kit and he comprehends the message very fast. She uses this technique on almost every object that she would like him to envision. Therefore, Fidel Tiru's learning kit enabled her son to clearly visualize everything that he has been taught growing up. "I always recommend parents with similar issues to use Fidel Tiru's products," adds Tigist.

Daniel Tadesse, a psychology major and Manager of Nisir School, elaborated that Fidel Tiru's products are scientifically helpful not only for special needs kids but for normal kids as well. "Science states that verbal teaching's contribution towards the mental development of kids is very low. The main tools are rather teaching mechanisms employing the senses of vision and touch."

Daniel says most schools don't have access to such products. "There aren't many products with the same function in the market. We choose Fidel Tiru's kits because Rahel works closely with us. The products are constantly innovating while keeping their quality."

Fidel Tiru has also become helpful for Ethiopian diaspora parents to keep their children in touch with their roots. "There are also parents who have forgotten Ge'ez letters and numbers. We analyze our products through constant feedback to improve and innovate based on needs. An example for this is our puzzle product. It has been improved four times so far through the assistance of clients' feedback data."

Rahel says there are a lot of misconceptions regarding social enterprises in Ethiopia. "There is a traditional way of seeing business as a mere entity for profit and not caring about social aspects. In fact, many people are not aware of what a social enterprise is and what social entrepreneurs do. The regulatory framework in Ethiopia misunderstands social entrepreneurship. Government offices advised me to register my company as an NGO."

For her pronounced contribution to children's education, Rahel has been elected as a laureate from Ethiopia out of more than 3,000 African contestants by the Women by Africa Initiative (WAI). "Our culture puts men first while putting pressure on women to handle their house and family as good as their jobs," Rahel explains. "However, still we determine our successes and failures." EBR

Learning the New

Non-motorized Transport in Addis

Three wheel and other motorized vehicle drivers often use lanes exclusively allocated for nonmotorized transport (NMT), as seen in the picture taken around Jemo.

It has been almost a year since the Addis Ababa City Transport Bureau unleashed the NMT strategic plan, in a bid to encourage bicycles, walking, and other non-engine transport mechanisms.

Nonetheless, two of the NMT lanes finalized thus far are usually seen being used by motorized vehicles.

A 2.7 km bicycle lane was first allocated for NMT in the Ayat area. Yet, it did not serve its purpose as it was not constructed with a proper strategic study, according to the bureau. The second lane sidelined for

Thing in Town

NMT was in the Lebu-Jemo area, and is currently serving more motorized vehicles than not.

Currently, two projects are under construction. The first track of 11 km is from Tulu Dimtu square to Kality. The road is expected to be completed within three months. The second project under construction stretches 4.7 km from Haile garment to Jemo.

The bureau has announced plans to construct 200 km of cycle tracks in the coming ten years. It is also acting to reconstruct the first cycle lanes in Ayat and Bole in Addis Ababa with proper strategic guidelines and workforce. Once a month, the city administration closes selected roads in the capital for vehicles, in a bid to encourage Nonmotorized mobility. EBR

Trump's Stand on GERD

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The presidential election of the United States has attracted the attention of the international community and governments of nations world-wide. This is not without reason. The US, as a superpower nation, has tremendous roles in world order. And, as always, the all-round quality of a leader of this superpower nation is of deep concern to all.

President Trump, who is to be called former president after less than a month, is different from all his predecessors in various ways. With his mottos of 'Make America Great Again' and 'America First,' he had created a bizarre situation in the international political arena. He had waged a trade war with China, the emerging superpower after the downfall and disintegration of the former USSR. He had ostensibly forsaken US leading roles in Global Environment, UNESCO and WHO. His construction of a wall alongside the border of Mexico after the downfall of the Berlin Wall and his position on immigrants and COVID-19 had worried global leaders of both developed and developing countries. His re-election for a second term of four years had posed a grave threat to the international community.

It is, therefore, no wonder if Ethiopians sink into bewilderment in view of his unexpected position on the Great Ethiopian Renaissance Dam (GERD). It was, alas! a mystery beyond one's comprehension why President Trump brought the agenda of GERD amidst his busy schedule during an election campaign and at a time when the agenda was already, and is being, entertained by the African Union (AU). The logic in terms of timing and substance remains puzzling.

I could not but assert that President Trump's statements on GRED are factually erroneous, an unfair biased position and a violation of international norms which all add up to an affront to the international community, the sovereign state of Ethiopia, the AU and last but not least to the people of the USA.

Possible reasons

My instant allusion is that Ethiopia's refusal to sign the colonial legacy agreement is considered as a show of disrespect to President Trump. If this is the case, he had literally confused sovereignty with leadership of a superpower.

Secondly, maybe President Trump did not like Ethiopia's growing relations with the People's Republic of China. It is said that Ethiopia is the largest recipient of Chinese assistance in Africa. China's influence in Africa and elsewhere could be a threat to the USA, reviving the struggle for the sphere of influence of the Cold War, which is, unfortunately, the unnecessary character of superpowers. No form or amount of assistance will adversely affect Ethiopia's sovereign right.

Whether the assumptions hold some grain of truth or not, it is the ardent belief of Ethiopia that the wrong message and unexpected position of President Trump could not, hopefully, move forward to mar the close and longstanding relations between the two countries. And, it could not be taken by the administration of the 46th president of the United States of America, President-elect Joe Biden.

Preoccupation or intentional: a great folly

Presumably, the basis of Trump's position emanates from erroneous information—be it misinformation or otherwise. He asserted that the Dam had stopped the water flow of the Nile, affecting the livelihood of Egypt. This is a most deplorable statement that cannot and never be aired by the president of the United States. I sometimes feel that the mistake was made either due to preoccupation of the campaign or could be intentional. If intentional, then it remains to be untrue and a great folly.

The United States has, without much exaggeration, the monopoly of world information and up-to-date data. Then, how could President Donald Trump wrongly state that the dam had stopped the flow of water to the Nile? As a president who had prepared a deal for the three countries could not miss this minor piece of information. President Trump should have been aware of the fact that the flooding damage of the Nile incurred on The Sudan occurred after the first phase of the dam was completed. One can imagine what the proportion of the damage could have been if the dam was not built. The fact is that the dam has never and will never arrest the flow of the water to the Nile.

Though GERD was realized this year after almost five to seven years start-up, the dream of having a modern dam to help Ethiopia develop was initiated more than half a century ago with the help of US experts. The United States of America has made immense contributions in developing dam projects in Ethiopia that long ago. Then, why this time has the president of the USA not liked the development of Ethiopia through, inter alia, electrification and irrigation works, which was fully supported by his predecessors?

The observer taking sides!

President Trump's statements were not merely queer and strange. Rather, very cumbersome to fathom. The message underscores President Trump's direct support and solidarity with Egypt. On the other hand, it is a clarion call for Ethiopia to reconsider its position contrary to its national interests. As an observer or facilitator, taking sides is unwelcome. Apparently, Ethiopia and Egypt are both friendly countries to the United States.

Prior to and since Ethiopia and the United States of America established their diplomatic relations in 1903, they have had longstanding friendly relations, despite some discomforts and zig-zags during the Cold War for around a decade and a half only. Ethiopia has been considered as a strong strategic partner of the US in the global war on terrorism and in peace keeping missions in different countries. Ethiopia's active role in the United Nations and the African Union; the common stands and cooperation in international affairs the two countries have pursued for years have signified and witnessed the strong relations the two countries have enjoyed. In light of this, what makes President Trump uncomfortable on Ethiopia's national interest is incomprehensible and a source of bewilderment.

Trump's position was a flagrant violation of the right of every nation without internal interference.

Inciting friction between two countries

It is utterly wrong to attempt to bring the two brotherly countries to loggerheads. The governments of Ethiopia and Egypt might have made political blunders at various historical periods. But, the bondage that has been cemented for centuries between the peoples of the two brotherly countries cannot fall apart by propaganda warfare. The Nile, since its creation has been shared by the peoples of the surrounding countries.

The water shared has deep psychological and physical glues. The peoples of the area have shared and shined in common biblical and ancient history.

Willy-nilly, the peoples of Ethiopia and Egypt have strong religious and historical relations solidified in the bedrocks of the Nile River, originating from the land of God, the Ghion or Abaye River. History attests that Ethiopia has its own share in the civilization of Egypt, including in the construction of the famous temples. Likewise, Egypt has its roots in Ethiopia's civilization through the commonly shared belief in Christianity and the Orthodox Church. There were, indeed, good and bad reflections stirred by various internal and external factors. But, the indelible relationship that cannot be taken away is the water they share through the Blue Nile feeding the Nile.

Grateful for disclosure

We never knew that President Trump was given the mandate to make a deal on GERD and make the parties sign as per his instructions.

We never knew that the Government of Egypt has the ill intention to blow up the dam. Unless he had that clue, he would have never uttered the provocative words officially.

By doing so, he has favoured Ethiopia by depicting the ill-intentions of the government of Egypt to blow the dam; Ethiopia could not think or dream of such things. There is nothing Egypt gains by blowing up the dam. In anyway, President Trump, in his capacity as mediator or observer, had learnt of the intentions of Egypt's government. Otherwise, it is hard to believe it came out from the mouth of the President out of nothing.

Lessons for Ethiopia

Currently, Ethiopia is in a state of instability, lack of peace, or state of civil war. The ethnic federal system has reached boiling point. The hatred and enmity seeds hatched within the ethnic federal system among the people has consequently bore poisonous fruits of killings, displacement, discrimination, insecurity and fratricidal war. This is a manifestation of a country's weakness, instability and insecurity. Had Ethiopia been strong and united, sovereignty is secured.

Ethiopians within and outside must be alert and stand in unity with strong conviction and commitment to protect and defend the country and put the home in order. The only remedy or prevention of provocations to its sovereignty is to stand strong and united. This is the right way to secure peace and tranquility, develop and maintain old friends and create new friends.

For Ethiopia, there is no ground to have negotiations on its own resources with any foreign body. True, for a river that crosses a border there could be dialogue and understanding not to affect the interests of the other.

Moreover, Ethiopia should be cautious when a leader of any country shows an interest in being an observer, facilitator or mediator on certain foreign related issues. Personalities should not dictate national, regional and international implications.

Protectionism: Ethiopia's Exceptional Path?

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Ethiopia's financial system is characterised by a high degree of regulation, protection and poor use of technologies. The underdevelopment and traditional practices in the sector is even worse than the standard of neighbouring countries such as Kenya. For instance, the sector to GDP ratio (a measure of financial sector development) is half, and the number of banks is also less than half of Kenya's. This difference becomes more notable when we consider Kenya's 54 million population size as compared to Ethiopia's 115 million in 2020.

The role of the government for the underdevelopment and closedness of the sector is considerable. The government has not only significantly involved itself in banking but has also placed a range of restrictions on banking activities. For instance, state banks in Kenya control less than 5Pct of the industry's assets whereas in Ethiopia the figure is more than 60Pct. The government's huge stake in the banking industry has afforded the state bank, the Commercial Bank of Ethiopia (CBE), a number of special privileges including acting as banker for the Ministry of Finance (MoF), keeping almost all government's and state owned enterprises' (SOEs) deposits, exemption from the National Bank of Ethiopia (NBE)'s requirement to buy national bonds equivalent to 27Pct of the loans it advances, and also getting foreign exchange and credit from the central bank easily. These direct interventions have been backed by other repressive financial policies such as restricting the activities of private banks, increasing the capital requirements for setting up new bank, and others. These interventions combined with restrictions on foreign bank entry have created an industry which is highly protected, and its competition and resource allocation is distorted.

Many Sub-Saharan countries have permitted foreign bank presence in their territories. During the imperial times, foreign investment in banking was allowed as long as the majority of ownership was slotted to Ethiopians. However, the Dergue regime nationalised all banks and insurance companies following the 1975 nationalisation proclamation. Even though change was hoped for when the Ethiopian Peoples' Revolutionary Democratic Front (EPRDF) took over the country in 1991, the front carried on the legacy of the socialist era. As a result, the banking sector has remained closed to foreign competition. For this, the EPRDF invoked pragmatic and ideological grounds. Beginning from the financial sector reforms of the early 1990s, pragmatic grounds have invoked that the National Bank of Ethiopia (NBE) lacks the capacity to regulate foreign banks that deal with complex financial products, and domestic banks are not in a position to compete with foreign banks that have strong resources—financial, technological and human.

Ethiopian policy makers have been less keen on opening the banking sector for ideological reasons too. Drawing on their theoretical underpinnings from the developmental state paradigm, Ethiopian policy makers recognise the degree of failures in the banking industry. Market failures exist due to a low lending-saving trap, high interest margin, funding services and merchandise sector, and the belief that foreign banks only target profitable opportunities and finance large and multinational businesses. The banking policies based on this view prefer a highly interventionist and closed banking system to support industrialization. This kind of approach was pursued by Korea and Taiwan during their economic miracle of the 1960s and 1970s.

Pragmatic and ideological factors have played a great part for the closed banking system in Ethiopia, inducing excessive growth of the state banks, over protection of the banking industry and failure of the central bank to upgrade its capacity for regulating an open and sophisticated financial system.

The protectionist policy has created a situation where CBE (for its policy role) relies on captive domestic markets for most of its products, special regulatory treatments, and implicit and explicit state support. This induced a state-dominated financial system whereby state banks have overgrown, resulting in an increased vulnerability of the financial system. It is only since the past two years, that the combined capacity of the 16 private banks has begun to slightly and gradually exceed that of CBE, in terms of profit, branch size and assets. CBE's unfruitful loans to SOEs under the former regime, and an abrupt decline in state preference under the new administration is already reversing the imbalance. Lack of foreign competition coupled with regulatory entry barriers has also allowed private banks to enjoy considerable returns mainly by focusing on urban areas while being reluctant to expand access to finance to industrial and small businesses.

No doubt, allowing foreign banks entry will bring benefits including increased competition, efficiency by means of technology and skills transfer, and strong financial backing. However, foreign banks' entry is not without cost. Any economic problem in a country where a foreign bank is based will spill over to the host country. Foreign banks are always in search of better investment opportunities across borders. When they find better investment options elsewhere, they move their capital quickly to take advantage. This increases volatility in the financial system, and as a result could trigger financial crisis. Latin American countries were the victims of such crisis in the 1970s.

If allowing foreign banks is accompanied by the swift lifting of restrictions on the investment activities of banks, the intense competition may force banks to engage in risky loans and other investment activities, causing default and bank failures. This situation could be exacerbated by the entry of new local banks in the pipeline.

Ethiopia cannot remain closed to foreign banks forever. As part of the current liberalisation process, we need to have a roadmap to create a situation for foreign banks' entry. The roadmap can include revising the current restrictive rules, restructuring state banks and reducing their role, upgrading the regulatory capacity of the central bank, and developing a regulatory framework for an open financial system.

Impacts of Conflicts on Ethiopia, Africa

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In the creation of the modern state, governments in Africa have tended to impose authority on local people. In this, they have been supported by organisations which have, until not too long ago, shared the view that only through central control can sustainable development be achieved. This has resulted in policies that take little account of local needs and interests.

Indeed, current discussions and analyses tend towards narrowing governance thought and practice to bureaucracy, ignoring its wide political and social implications. A naive realism, as it were. This is also marked by an inattention to the articulation of the problems, exclusion of institutional perspectives on democratisation, politicised organisations, inadequate room for international agencies and fragmented relations between global and indigenous aspects of democratisation in Africa.

Because of these conceptual divides in governance modalities, this has thrust protagonists to seek alternative routes to achieve their objectives, often leading to conflicts that are compounded by complex emergencies. It has also contributed to natural disasters such as drought and floods, amongst others. Coupled with the way humans are exploiting natural resources, epidemics and nutritional emergencies are on the rise. Nonetheless, the responses in Africa mainly arise from international aid, which is marred by a complex web of conditionalities.

Effects of Conflicts on Ethiopia

Within Ethiopia, insecurity has disrupted economic activity through a number of channels, and the effects can be large and long lasting. Following the useless Eritrea-Ethiopia conflict of 1998, fear resulting from violence and destruction has hindered economic activity directly through an increase in capital flight, business costs and retarding foreign direct investments.

The indirect effects have been the breakdown of political rules and institutions and public services such as health and education, as well as effects that spill over into other countries, such as refugee crises. Insecurity and weak law enforcement can threaten property rights and suppress economic activity. Particularly in contexts of weak institutions, the nation becomes trapped in repeated cycles of violence that prevent economic development. Understanding and quantifying the different ways that conflict can impact the economy is critical to informing more effective conflict prevention strategies and enabling growth.

In 1992/93, the Ethiopian government began its first series of economic reform programmes. The reform programmes aimed at reorienting the economy from a command to market economy, rationalising the role of the state and creating legal institutional and policy environments to enhance private sector investment.

Different sectoral policies, strategies and plans were developed and implemented in the 1990s. This was shelved after the war broke out between Eritrea and Ethiopia in 1998, an inconclusive battle until May 2000, when Ethiopian forces launched a major offensive, securing the disputed territory and driving further into Eritrea. A cease-fire agreement called for a truce, the establishment of a UN-patrolled buffer zone and the demarcation of the border by a neutral commission. An estimated 70,000 to 120,000 Ethiopian and Eritrean soldiers and civilians died in the conflict. The war shattered both economies.

After this a no-war-no-peace period ensued, Ethiopia began the implementation of integrated development plans, the first being the Sustainable Development and Poverty Reduction Program (SDPRP), which covered 2002/03-2004/05. SDPRP focused primarily on economic and social development.

The second developmental plan was the Plan for Accelerated and Sustainable Development to End Poverty (PASDEP). The last and the current development plan named the Growth and Transformation Plan (GTP) and the Homegrown Economic Plans that encompass developing a green economy and eradicating poverty that have propelled GDP growth.

The Financial Times in December 2019, stated, 'A country that is in the process of ripping up its economic model and has been forced to go cap in hand to the IMF might be expected to be one mired in recession. Yet Ethiopia, which is undergoing a sharp reversal in strategy under Nobel Peace Prize-winning Prime Minister Abiy Ahmed (PhD), has been the world's fastest-growing economy over the past decade, both in overall and per capita terms.

Since 2009, Ethiopia's gross domestic product has jumped 146.7Pct, according to data collated by the IMF, while in per capita purchasing power parity terms it has risen 149Pct, enough to put it top of both lists as the decade draws to a close'. With good effort, Ethiopia can wither away the impact of the current law enforcement operation.

According to the International Crisis Group, analysts predicted that Ethiopia's size and importance means that a lengthy war would reverberate well beyond its borders, because Ethiopia is also vital to stability in the Horn of Africa. If Eritrea had responded to the missile attacks, it would have had internationalised the conflict and could have drawn in different Sudanese constituencies, each of which has reasons to back Addis Ababa, Mequelle or Asmara.

Sustained fighting would have sent tens of thousands of additional refugees into neighbouring countries, and possibly leave a security vacuum in Somalia, where Ethiopian troops are deployed as part of an African Union mission to help the government in Mogadishu defeat the Al-Shabaab insurgency. But this is almost a scenario that could have happened if the conflict became protracted.

Beyond Ethiopia

Frontier Economics has studied the cost of civil war in South Sudan. The costs of conflict to the nation, its neighbours and the international community are likely to increase at an accelerating rate the longer the conflict persists. Key findings for South Sudan are that if the conflict had continued for another one to 5 years, it would have costed South Sudan between USD22.3 billion and USD28 billion. If the conflict's effects are measured over 20 years to allow for flow-on effects, the loss is even greater: between USD122 billion and USD158 billion.

The human costs of conflict—death, hunger and disease—also have significant longer-term economic impacts. Just taking the effects of hunger on labour productivity could mean a further USD6 billion in lost GDP if the conflict were to last another 5 years. South Sudan's spending on security could increase by a further USD2.2 billion were the conflict to last another 5 years. The savings in military spending that would result from resolving the conflict within a year from now would allow South Sudan to meet the internationally recommended target of allocating 20Pct of spending to education.

Ethiopia, Kenya, Sudan, Tanzania, and Uganda could between them add billions in trade benefits if the conflict were resolved within one year, rather than allowed to last for 5 years.

Countries in the region, most notably Uganda and Kenya, might have incurred substantial financial costs relating to security needs. Figures reported for Uganda suggest that defense expenditure incurred as a result of the conflict is around double the government's projected capital investment budget for the health sector for the coming financial year, and close to the capital investment budget for education.

Hence preventing violent conflict and addressing its root causes should be a key priority. The risk of recurrent cycles of violence poses the greatest economic threat to conflict-affected countries. The scale and duration of economic repercussions from conflict tends to be much lower where stable peace can be achieved.

Humanitarian relief can play an important role in supporting post-conflict growth, especially efforts targeted at child development, which can have long-term effects on the economy.

The end of conflict provides a key opportunity to attract foreign investment. Policies that de-escalate conflict and commit the warring parties to peace in the period right after the violence stops can help to attract investment. Inclusive political institutions and policies that encourage refugees to return to their homes also appear to help support investment and economic regeneration.

Ethiopia Should not Repeat Mistakes of the Last Decade

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A strong export performance and stable balance of payment stance are the main sources of growth and prosperity. In the last decade, the government has been claiming Ethiopia achieved double-digit economic growth. Ironically however, the past ten years can be labeled as 'the lost decade' in relation to Ethiopia's export performance.

The period between 2001/02 and 2010/11 can be regarded as a 'golden era' where exports increased six-fold from less than USD500 million to more than USD2.8 billion, as the price of goods in the international market was going up rapidly, and the business environment in Ethiopia was in a good shape and momentum. The country was stabilizing itself and products like coffee, gold, oilseeds, and khat were abundant in the market and domestic price and demand was low. Agricultural output was growing and the diversification of exports to include cut flowers, livestock, and other commodities was picking up steam.

Things are different currently. The country's total exports in 2019/20 almost equaled that of 2011/12, dancing around the USD3 billion mark. During this period, the price of commodities in the international market remained stagnant if not on the slide. Domestic consumption rose, and consequently so did the price of commodities above that of international prices at times.

Production of commodities like coffee, oilseeds, and gold reached the highest achievable levels using existing production methods. The only way to increase export earnings was to diversify the country's exports towards manufactured goods and add value in the export of coffee, livestock, and other agricultural outputs. But all this has proven difficult to attain.

In the last decade, the government tried almost every available tool at their disposal to grow export revenue, including diversification, control mechanisms through the Ethiopian Commodity Exchange (ECX), and reducing and removing export taxes. But the continuously shrinking price of commodities in the international market, a stagnant manufacturing sector, staggering levels of inflation, and a population boom with higher incomes in the domestic market made exporting commodities difficult. Ethiopian exporters even failed to exploit the opportunities presented by initiatives such as the African Growth and Opportunity Act (AGOA) of the United States.

Besides, the annual import bill almost doubled to reach above USD18 billion over the last decade. As a result of the widening deficit in the balance of trade, macroeconomic stability is under threat.

In the next ten years, the impact of export stagnation will not be the same as in the last decade as the trade deficit is in the worst situation ever. Already, the macroeconomic imbalance is casting a shadow over development plans of the country, mainly due to widening gap between external debt and export. So, the government should act swiftly to find additional solutions to prevent another lost decade.

Sustaining growth is unthinkable without the expansion of the export sector. The Home-grown Economic Reform Agenda aims to increase foreign currency revenue by facilitating export, tourism, and foreign direct investment—a very good strategy. But it is not clear on how the government plans to execute its strategies, as has proven difficult in the last ten years. Since the manufacturing sector is starting from a very low base, it is very unlikely that it will become a short-term solution. The industrial parks that have generated more than USD140 million in the last fiscal year, are a good start in the right direction but not enough to solve this large imbalance.

There is also a dark and less-visible side to industrial parks. To export USD140 million, the industrial parks need to import raw materials, calling into serious question what is their real contribution for Ethiopia's forex stock.

Manufacturing companies tend to move to developing countries like Ethiopia when wages grow in countries like China and Bangladesh. This is why some notable brands are moving to Ethiopia. But we need to note that these situations are partially attributed to the crises facing manufacturing in such countries, in addition to the adoption of automation to cut wages and increase production.

So, the probability that Ethiopia's export sector will continue to dance around USD3 billion is very likely in the next decade and this will have severe consequences for the nation's growth plans. As a short-term solution to avert a severe imbalance reaching a tipping point, the country should consider a strong import substitution strategy that uses domestic inputs.

Further, Africa is now embarked on a big project to implement the African Continental Free Trade Area (AfCFTA), a trade agreement between African Union (AU) member states, aiming to create a single continental market for goods and services by liberalizing tariff and non-tariff barriers. The government of Ethiopia for the first time is engaging in its full capacity in trade agreements. This will create good opportunities for the country.

Though AfCFTA was planned to be operational by July 2019, it is now postponed to January 2021, partly also because of the COVID-19 pandemic. The World Bank forecasts that the agreement represents major opportunities for African countries to boost growth, reduce poverty, and broaden economic inclusion. If implemented fully, the trade pact could boost regional incomes by 7Pct or USD450 billion, speed up wage growth for women, and lift 30 million people out of extreme poverty by 2035.

African countries struggling to compete on the international stage look forward to this opportunity to trade among themselves. Given the continent-wide coverage of Ethiopian Airlines, this is a big opportunity for Ethiopia, above other nations, to access the markets of African countries. The momentum to benefit from this opportunity is very high in different African countries. But in Ethiopia, the awareness of the business community is not at the preferred level to fully utilize the opportunity. So, it is better if the government starts countrywide momentum gathering moves within the business community to ready them to utilize this opportunity to the fullest.

Quote

"Terrorism, war, and bankruptcy are caused by the privatization of money, issued as debt and compounded by interest."

Napoleon Bonaparte
(1769-1821)

From the Horse's Mouth

"They [EPRDF] literally killed the private sector."

Eyob Tekalign (PhD)

said this during an interview with EBC on November 28. He stated the former regime went as far as forcing the closure of private competitors to monopolize sectors through their own affiliations. "They believed they must command the economy, in order to control the politics."

"Ethiopia is the linchpin of the region,"

Tibor P. Nagy,
US Assistant Secretary for African Affairs

said this during a teleconference with Michael A. Raynor, US Ambassador to Ethiopia, and international media. He said Ethiopia has become a decisive regional power especially since Abiy Ahmed came to power.

The Number

12.9 MILLION PEOPLE

Will likely face high levels of acute food insecurity between January and June 2021, according an OCHA warning report on Ethiopia, launched in early December 2020. A total of USD1.44 billion is also required, of which USD1.06 billion is non-coronavirus requirement.

ORO
Yunnan Commerce

Yunnan Commercial Representative Office in Ethiopia
云南省驻埃塞俄比亚商务代表处

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Distinguished Mr.Mrs.,

The Everlasting China-South Asia Online Expo will be staged on December 12-18, 2020 in Kunming, southwest China's Yunnan Province. It is sponsored by the secretariat of China-South Asia Expo and jointly undertaken by member units of the Executive Committee of the 6th China-South Asia Expo and the 26th China Kunming Import and Export Fair.

This online expo will make full use of global marketing and promotions, live streaming 3D modeling, AI, big data analysis and other technical means, and build a digital exhibition platform in virtue of the official website of China-South Asia Expo, focusing on online exhibition, online negotiation and online trade. Moreover, a series of activities such as the launching of ceremony and live streaming for marketing will also be held.

This session of the expo is an important opportunity to further promote friendly exchanges and economic and trade cooperation between China and South and Southern Asia, as well as countries and regions around the world, to mitigate the negative effects of COVID-19 on global economic and trade cooperation, and to achieve common development through economic and trade exchanges among all countries. You and your delegation are cordially invited to the online expo and series of activities during the event. We are willing to join hands with the industrial and commercial circles of all countries to fight against the pandemic and create prosperity!

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We wish you all the best!

Secretariat of China-South Asia Expo

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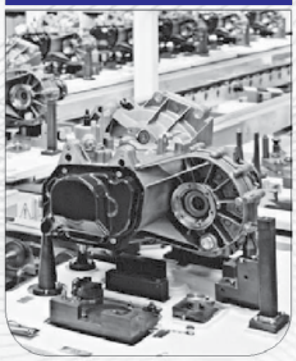

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